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NOTE

The term 'Britain' is used informally in the *Survey of Current Affairs* to mean the United Kingdom of Great Britain and Northern Ireland. 'Great Britain' comprises England, Wales and Scotland.

Government and Administration

By-election and State of the Parties

Details of the result of a recent parliamentary by-election and the present state of the parties in the House of Commons are given below.

The Labour Party retained the seat of Liverpool Walton in a by-election on 4 July. The seat became vacant following the death of the Labour MP, Mr Eric Heffer, in May 1991. The Labour Party candidate, Mr Peter Kilfoyle, won by a majority of 6,860.

The result of the by-election was:

P. Kilfoyle (Labour)	21,317
P. Clark (Liberal Democrat)	14,457
L. Mahmood (Real Labour)	2,613
B. Greenwood (Conservative)	1,155

Two other candidates received between them a total of 609 votes; they and the Conservative candidate lost their deposits. Votes were cast by 56·5 per cent of the electorate.

At the general election in June 1987 (see p 187, 1987), the seat was held by the Labour Party, with Mr Heffer polling 34,661 votes, followed by the Alliance candidate with 11,408 and the Conservative candidate with 7,738. Votes were cast by 73·6 per cent of the electorate.

State of the Parties

Following the by-election, the state of the parties in the House of Commons is now:

Conservative	369
Labour	228
Liberal Democrats	21
Social Democrats	3
Scottish National	5
Plaid Cymru (Welsh Nationalist)	3
Ulster Unionist (Northern Ireland)	9
Democratic Unionist (Northern Ireland)	3
Social Democratic and Labour (Northern Ireland)	3
Ulster Popular Unionist (Northern Ireland)	1
Sinn Fein (Northern Ireland)	1
TOTAL	646

The four remaining seats are held by the Speaker of the House of Commons and his three deputies (the Chairman of Ways and Means and the first and second Deputy Chairmen of Ways and Means), who do not vote except in their official capacity in the event of a tie. The government majority over all the other parties is 92 although the Sinn Fein MP has not taken his seat.

Recent Legislation

The public Acts of Parliament passed since April 1991 are listed below. Eleven Acts were introduced by private members; these are indicated by asterisks.

* *Children and Young Persons (Protection from Tobacco) Act 1991.* Increases penalties for the sale of tobacco to children under 16 and seeks to protect children from tobacco advertising on retail premises and at sporting events. Royal Assent: 27.6.91. Ch 23. HMSO, £1·80. ISBN 0 10 542391 2.

Civil Jurisdiction and Judgements Act 1991. Enables Britain to give effect to the 1988 Lugano Convention on jurisdiction. Royal Assent: 9.5.91. Ch 12. HMSO, £5·80. ISBN 0 10 541291 0.

Consolidated Fund (No 2) Act 1991. Gives parliamentary authority for sums to be issued out of the Consolidated Fund to meet the Government's expenditure requirements. Royal Assent: 9.5.91. Ch 7. HMSO, 60p. ISBN 0 10 540791 7.

* *Criminal Procedure (Insanity and Unfitness to Plead) Act 1991.* Changes the law on criminal procedure in cases involving insanity or unfitness to be tried. Royal Assent: 27.6.91. Ch 25. HMSO, £3·55. ISBN 0 10 542591 5.

* *Crofter Forestry (Scotland) Act 1991.* Gives crofting tenants legal rights of ownership over the trees that they plant on common grazing. Royal Assent: 27.6.91. Ch 18. HMSO, £1. ISBN 0 10 541891 9.

Disability Living Allowance and Disability Working Allowance Act 1991. Introduces new benefits for disabled people to support them at home and at work. Royal Assent: 27.6.91. Ch 21. HMSO, £5·90. ISBN 0 10 542191 X.

* *Football (Offences) Act 1991.* Makes further provision to deal with disorderly conduct by people attending football matches. Royal Assent: 27.6.91. Ch 19. HMSO, 60p. ISBN 0 10 541991 5.

* *Local Government Finance (Publicity for Auditors' Reports) Act 1991.* Deals with the provision of auditors' reports under the Local Government Finance Act 1982. Royal Assent: 27.6.91. Ch 15. HMSO, £1. ISBN 0 10 541591 X.

Maintenance Enforcement Act 1991. Contains provisions to ensure that people directed by the courts to provide financial support for children pay maintenance regularly (see pp 393-4, 1990). Royal Assent: 27.6.91. Ch 17. HMSO, £5·90. ISBN 0 10 541791 2.

* *Motor Vehicles (Safety Equipment for Children) Act 1991.* Obliges retailers of child car safety equipment to advise customers about the most appropriate equipment at the point of sale. Requires all child safety equipment sold to conform to recognised standards. Royal Assent: 27.6.91. Ch 14. HMSO, £1. ISBN 0 10 541491 3.

Natural Heritage (Scotland) Act 1991 (see pp 117-18). Royal Assent: 27.6.91. Ch 28. HMSO, £7·20. ISBN 0 10 542891 4.

New Roads and Street Works Act 1991 (see pp 157-8). Royal Assent: 27.6.91. Ch 22. HMSO, £13. ISBN 0 10 542291 6.

Northern Ireland (Emergency Provisions) Act 1991 (see pp 414-16, 1990). Royal Assent: 27.6.91. Ch 24. HMSO, £9·30. ISBN 0 10 542491 9.

Oversea Superannuation Act 1991. Amends Overseas Pensions Act 1973. Royal Assent: 27.6.91. Ch 16. HMSO, 60p. ISBN 0 10 541691 6.

* *Property Misdescriptions Act 1991.* Prohibits the making of false or misleading statements by estate agents or property developers about property on sale. Royal Assent: 27.6.91. Ch 29. HMSO, £2·20. ISBN 0 10 542991 0.

* *Radioactive Material (Road Transport) Act 1991.* Replaces part of the Radioactive Substances Act 1948, and extends the power of the Secretary of State to make regulations governing the transport of radioactive materials. Royal Assent: 27.6.91. Ch 27. HMSO, £2·20. ISBN 0 10 542791 8.

* *Registered Homes (Amendment) Act 1991.* Extends the provisions of the Registered Homes Act 1984 to residential care homes with fewer than four residents. Royal Assent: 27.6.91. Ch 20. HMSO, £1. ISBN 0 10 542091 3.

Representation of the People Act 1991. Amends the provisions of the Representation of the People Act 1983 relating to returning officers' charges and expenses. Royal Assent: 9.5.91. Ch 11. HMSO, 60p. ISBN 0 10 541191 4.

* *Road Traffic (Temporary Restrictions) Act 1991.* Enhances local authority powers over temporary traffic regulation and relaxes certain

requirements. Royal Assent: 27.6.91. Ch 26. HMSO, £1·80. ISBN 0 10 542691 1.

War Crimes Act 1991 (see p 178). Royal Assent: 9.5.91. Ch 13. HMSO, £2·20. ISBN 0 10 541391 7.

* *Welfare of Animals at Slaughter Act 1991.* Ensures adequate compliance with existing legislation, with particular regard to conditions which are stressful to animals at slaughter. Royal Assent: 27.6.91. Ch 30. HMSO, £1·80. ISBN 0 10 543091 9.

Political Asylum

The Government announced a package of measures on 2 July to curb asylum abuse, including legislation to accelerate and simplify decision-making in asylum cases.

Background

About a quarter of asylum seekers in Britain qualify for refugee status under the terms of the 1951 United Nations Convention on Refugees. More than half are given exceptional leave to remain (ELR), which means that they are allowed to stay, for 12 months in the first instance, although they are not refugees and have no other basis of stay. ELR may be granted when conditions in a home country are particularly disturbed or an individual case displays 'strong compassionate features'.

The UN Convention on Refugees sets out the internationally accepted definition of refugee status, namely a 'well-founded fear of being persecuted for reasons of race, religion, nationality, membership of a particular social group or political opinion'. Signatories to the Convention undertake not to return refugees to countries where they face persecution. In practice, an asylum seeker initially by-passes normal immigration control, securing protection from removal at least until his or her claim to refugee status has been determined.

Home Secretary's Statement

In a statement to the House of Commons (*Hansard*, Vol 194, No 136, cols 165-78), the Home Secretary, Mr Kenneth Baker, explained that the number of people seeking asylum in Britain had risen from 5,000 in 1988 to more than 30,000 in 1990. Nearly 1,000 applications a week had been received in the first five months of 1991. This sharp increase, which had prompted the Government to examine the asylum determination system, reflected a broader international trend. In Europe as a whole there had been some 500,000 applications for asylum in 1990.

Commenting on the UN Convention, Mr Baker said that this was 'an instrument of last resort, designed to protect life and liberty from immediate threat'. He continued: 'It does not confer an unfettered right to travel the world and settle in the country of one's choice. It does not oblige parties to facilitate, still less to encourage, the arrival of asylum applicants.'

Government Measures

Mr Baker announced the following measures:

– Asylum applicants who failed to seek protection in the first safe country that they reached would normally be sent back from Britain to that country to have their claim dealt with there.

– Controls at entry ports would be strengthened to improve identification of applicants who arrived from safe countries.

– The charge payable by the carrier for each passenger brought to Britain without valid documentation would be doubled from £1,000 to £2,000 with immediate effect.

– Improved document checks at overseas airports, perhaps involving the photocopying of travel documents to minimise fraud and abuse, were being explored.

– Better screening procedures for identifying undocumented asylum seekers in the initial stages, through fingerprinting if necessary, were under consideration.

– Up to 500 staff for the immigration department at Croydon were being recruited to speed up the initial determination of asylum claims.

Mr Baker said that at the earliest parliamentary opportunity a Bill to allow an

acceleration and simplification of procedures would be introduced. 'The present opportunities for delay through repeated representations and litigation will be substantially pruned.' Applicants who were turned down in the determination process would be able to appeal while they were in Britain. New procedural rules would impose time limits for the submission of material in support of claims.

To ensure that asylum appeals would be heard more quickly, Mr Baker explained that the Lord Chancellor would recruit extra adjudicators and other support staff. The aim would be to decide all cases within a matter of months.

Legal Assistance

The Lord Chancellor also planned to withdraw advice and assistance under the legal aid Green Form scheme (see p 121, 1987) in asylum and other immigration cases. Necessary and more effective legal advice and assistance would henceforth be available from the United Kingdom Immigrants Advisory Service, whose government grant would be substantially increased.

Conclusion

Concluding, Mr Baker said: 'The Government recognise their obligations to genuine refugees, but they also have an obligation to the British people to control immigration. Those obligations can pull in different directions. Our aim is to arrive at a balance between them which is in line with the realities of the modern world.'

Northern Ireland Political Talks

On 3 July the Government announced its decision to bring the political talks on Northern Ireland to a conclusion.

Background

Details of the talks were announced on 26 March (see pp 135-6). They were to address:

– the relations between the two sides of the community in Northern Ireland;

– the relations among the people of Ireland; and

– the relations between the British and Irish governments.

At the request of the Unionists, both governments agreed to an interval between the two meetings of the Anglo-Irish intergovernmental conference (on 26 April and 16 July) to allow an opportunity for political dialogue.

The talks began on 30 April with a series of bilateral exchanges between the Secretary of State for Northern Ireland, Mr Peter Brooke, and the individual parties, which were designed to settle a number of outstanding procedural issues. These proved difficult to resolve and it was not until 17 June that the plenary sessions began. The parties presented position papers, which were discussed, examined and clarified. A more intensive schedule of meetings then took place to debate themes which had emerged from the initial presentations. By 2 July it was clear that the talks could not be completed before the meeting of the conference on 16 July.

Government Statement

Giving details to the House of Commons on 3 July (*Hansard*, Vol 194, No 137, cols 319-20), Mr Brooke said that the commitment and seriousness of purpose shown by all the parties in the talks was a source of encouragement for the future. The nature of the exchanges confirmed that:

– the time was ripe for political talks that addressed all the relevant relationships;

– the process was of current and potential value;

– a degree of common ground existed; and

– there was a good prospect that a comprehensive political accommodation could be reached.

Mr Brooke added: 'While I am naturally disappointed at this moment that the current process has to end, foundations have been laid for progress in the future which neither cynics nor the men of violence will be able to undermine.'

Shorter Notes

STRUCTURE OF LOCAL GOVERNMENT IN SCOTLAND AND WALES

Government proposals for changes to the structure of local government in Scotland and Wales were set out in two consultation papers published on 17 June. This followed the announcement of similar proposals for England in April (see pp 173-4).

The publication of the consultation paper for Scotland was announced in the House of Commons by the Secretary of State for Scotland, Mr Ian Lang. He believed that 'the time [was] right for a move to a single tier of unitary authorities throughout Scotland'. This would replace the present two-tier system, although there would be no change in structure for the island areas which already had unitary authorities. The paper invites views on the principles on which the new system should be based and on a range of related issues.

Announcing the publication of the consultation paper on Wales, the Secretary of State for Wales, Mr David Hunt, told the House of Commons that consideration should be given to moving towards a system of unitary authorities. The paper sets out for public debate the considerations that should be borne in mind in determining the size and number of the new authorities. It also sets out three alternative suggestions for different numbers of unitary authorities as a basis for consultation.

Sources: *The Structure of Local Government in Scotland. A Consultation Paper* (available free from the Scottish Office); *The Structure of Local Government in Wales. A Consultation Paper* (available free from the Welsh Office); *Hansard*, Vol 193, No 125, cols 21-47.

LEGAL AID

On 4 June the Lord Chancellor, Lord Mackay of Clashfern, issued a consultation paper (see p 288) on options for funding legal aid for civil law cases in England and Wales.

Legal aid is a form of conditional financial support, provided from public funds, for individuals who cannot afford the costs of legal proceedings without some financial assistance.

The consultation paper examines alternatives to publicly funded legal aid, including loans, contingency funding and insurance, and also considers modifications to the existing system. The main option in the paper is the 'safety net' approach, under which litigants with some means would fund their cases privately up to an individually assessed spending limit beyond which they would become eligible for legal aid. The aim would be to secure a balance between providing financial support where it was needed, encouraging litigants to take a responsible approach to legal aid and requiring the legal profession to give an effective and efficient service.

'The importance of legal aid in our legal system cannot be overstated', said Lord Mackay. 'But the cash to fund legal aid is not in unlimited supply . . . and we need to make the best possible use of it.' He urged all those involved in the administration of justice to make litigation affordable and he emphasised the need to ensure that legal aid was targeted on those who needed it.

The consultation paper is the first stage of the general Review of Financial Conditions for Legal Aid, which the Lord Chancellor announced in November 1989 and which will take up to three years to complete. Further stages will cover legal aid in criminal and matrimonial cases and the Green Form legal advice and assistance scheme (see p 121, 1987).

Lord Mackay stressed that the proposals in the paper were provisional and that he intended the consultation period up to the end of October 1991 to be conducted on a very open basis. He concluded: 'The main purpose of this stage of the Review is to find a way of tackling the problem of those whom legal aid does not currently help and who may therefore find that the expense of litigation becomes an obstacle to justice.'

Source: Lord Chancellor's Department news release, 4.6.91.

External Affairs and Defence

North Atlantic Treaty Organisation

A transformed Alliance, further arms control measures and greater co-operation with other states were the major subjects of a communiqué issued by the foreign ministers of the North Atlantic Council, which met in June 1991.

Ministers from the 16 members of the North Atlantic Treaty Organisation (NATO) met in Copenhagen, Denmark, on 6 and 7 June. They also published a statement highlighting the Alliance's main security functions and its future tasks (issued with the main communiqué on 7 June). Another statement, published on 6 June, contained initiatives furthering relations between NATO and Central and Eastern European states.

Earlier, at the end of May, NATO defence ministers discussed new forces for the Alliance, including the creation of a Rapid Reaction Corps under British command (see p 260).

NORTH ATLANTIC COUNCIL

The following communiqué is abridged and some headings have been added.

FINAL COMMUNIQUÉ

At their Summit in London last July [see pp 237-9, 1990], *our Heads of State and Government committed our Alliance of free and democratic nations to a process of adaptation commensurate with the changes that have reshaped the face of Europe. The fundamental review that they mandated of the Alliance's political and military strategy is being carried out on all levels and is approaching completion. Our Heads of State and Government will convene in Rome on 7 and 8 November to bring this process to its conclusion. . . .*

A transformed Atlantic Alliance constitutes an essential element in the new architecture of an undivided Europe; we are agreed that the Alliance must have the flexibility to continue to develop and evolve as the security situation dictates. An important basis for this transformation is the agreement of all Allies to enhance the role and responsibility of the European members. We welcome efforts further to strengthen the security dimension in the process of European integration and recognise the significance of the progress made by the countries of the European Community towards the goal of political union [see pp 98-100], *including the development of a common foreign and security policy. These two positive processes are mutually reinforcing. The development of a European security identity and defence role, reflected in the strengthening of the European pillar within the Alliance, will reinforce the integrity and effectiveness of the Atlantic Alliance.*

We are agreed . . . to enhance the essential transatlantic link that the Alliance guarantees and fully to maintain the strategic unity and indivisibility of security of all our members. . . .

Recognising that it is for the European Allies concerned to decide what arrangements are needed for the expression of a common European foreign and security policy and defence role, we further agree that, as the two processes advance, we will develop practical arrangements to ensure the necessary transparency and complementarity between the European security and defence identity as it emerges in the Twelve and the WEU [Western European Union], *and the Alliance. There will be a need, in particular, to establish appropriate links and*

consultation procedures between them in order to ensure that the Allies that are not currently participating in the development of a European identity in foreign and security policy and defence should be adequately involved in decisions that may affect their security.

Arms Control

Allies are convinced that arms control and confidence-building measures will continue to shape and consolidate a new co-operative order in Europe in which no country need harbour fears for its security. The CFE [Conventional Forces in Europe] *Treaty is the keystone for such a stable and lasting peace on the continent* [see pp 419-20, 1990]. *In our separate Statement* [issued on 6 June], *we expressed our hope that a binding agreement can soon be reached to resolve the problems which had arisen with respect to the Treaty, allowing it to move forward to early ratification and entry into force and full implementation. Once concluded, such an agreement will open the way for us to make new proposals on military manpower in Europe without delay in the CFE 1A negotiations now taking place in Vienna. In the CSBM* [confidence- and security-building measures] *negotiations, we will seek further to strengthen openness and stability. Work within the Alliance is moving forward in preparation for new negotiations on conventional arms in Europe, open to all CSCE* [Conference on Security and Co-operation in Europe] *members, after the Helsinki CSCE Follow-Up Meeting in 1992. We look forward to informal preparatory consultations on this subject with CSCE partners in the autumn.*

Open Skies

The Allies attach high importance to the earliest possible establishment of an Open Skies regime as an essential contribution to transparency among all participants [see p 207, 1990]. *We have recently made fresh proposals to that end, and we call on all participants to join us in a prompt resumption of productive negotiations.*

Strategic Arms

In the Strategic Arms Reduction Talks (START), Allies support the United States' efforts to reach a final agreement that will provide a framework for strategic stability into the next century [see pp 203-4, 1990]. *Preparations among the Allies concerned are advancing on an arms control framework for US-Soviet negotiations on the reduction of their short-range nuclear forces.*

Non-Proliferation

Allies have worked for many years to advance progress in the fields of non-proliferation and disarmament on a regional and global basis. The Gulf crisis demonstrated what we have long recognised: the proliferation of nuclear, chemical and biological weapons and of missiles capable of delivering them, and excessive transfers of conventional arms undermine international security and increase the risk of armed conflict throughout the world. To meet this challenge, we have renewed our commitment to the earliest possible achievement of advances in the international forums dealing with specific proliferation issues. We fully endorse the goal of concluding a global, comprehensive and effectively verifiable chemical weapons convention by mid-1992 and support President Bush's initiative of 13 May to that effect [see p 263]. *We will also seek in September 1991, at the Third Review Conference on the Biological Weapons Convention, to strengthen that Convention and to encourage further accessions to it. We will urgently pursue efforts in the United Nations and elsewhere to address the problem of excessive build-ups of conventional arms by ensuring transparency and restraint. Several of our leaders have recently proposed arms control and non-proliferation initiatives, including for the Middle East. These initiatives reflect our commitment to the goals described above.*

Political Solidarity

The Gulf conflict confirmed the importance of intra-Alliance consultations and information-sharing, which helped to reinforce political solidarity among Allies throughout the crisis. The collective expression of support for the Ally facing a direct threat demonstrated our resolve to stand by our commitments under Article V of the Washington Treaty and helped to deter a further expansion of hostilities. Although NATO itself was not involved in the Gulf War, the long practice of co-operation, common procedures, collective defence arrangements and infrastructure developed by NATO provided valuable assistance to those Allies that chose to make use of them in their respective efforts in support of the UN Security Council resolutions on the Gulf.

The Future

Looking to the future, we believe that just and lasting solutions to the problems of the Gulf and the Middle East are urgently needed. We thus support current efforts for comprehensive negotiated settlements to the problems of that region.

The Gulf crisis underlined that, in an interdependent world that is increasingly affected by technological advances, we must be prepared to address other unpredictable developments that are beyond the focus of traditional Alliance concerns, but that can have direct implications for our security. Now more than ever, worldwide developments which affect our security interests are legitimate matters for consultation and, where appropriate, co-ordination among us. We will thus increasingly need to address broader issues and new global challenges. We will seek to do so in our consultations and in the appropriate multilateral forums, in the widest possible co-operation with other states. . . .

OTHER NATO STATEMENTS

The Purpose of NATO

In a statement issued on 7 June the NATO Council said that the objective of the Alliance, which was to safeguard the freedom and security of all its members, would remain unchanged. NATO embodied the transatlantic link by which the security of North America was permanently tied to the security of Europe. The fundamental operating principle was that of 'common commitment and mutual co-operation among sovereign states in support of the indivisibility of security for all its members'. The Alliance's four security functions were:

– to provide a foundation for security in Europe;

– to provide a transatlantic forum for allied consultation;

– to deter and defend the territory of member states against any threat of aggression; and

– to preserve the strategic balance within Europe.

Although the European Community, the WEU, and the CSCE also had roles in these fields, the extent of its membership and of its capabilities gave NATO 'a particular position', since it could perform all four functions.

Partnership with Central and Eastern Europe

A number of NATO initiatives were agreed in order to strengthen relations with countries of Central and Eastern Europe. These were outlined in another Council document and include:

– the organisation of meetings of officials and experts to exchange views and information on security policy, strategy and doctrine, as well as on other issues, such as arms control, non-proliferation, and the conversion of defence industries to civilian purposes;

– greater military contacts between senior NATO officials and their counterparts in Central and Eastern European states;[1]

– the participation of experts from these countries in certain Alliance activities, including those related to NATO's scientific and environmental programmes;

– the gradual expansion of NATO's information programmes, support for the discussion of security issues in a democratic context within countries, and invitations to parliamentary, educational and media groups, as well as delegations of young leaders to visit NATO; and

– encouragement of greater contacts between Central and Eastern European parliaments and the North Atlantic Assembly.[2]

European Community

Britain's views on the future development of the European Community were outlined in a House of Commons debate on 26 June. Further discussions on economic, monetary

[1] A number of government and military leaders from Bulgaria, Czechoslovakia, Hungary, Poland, and Romania, as well as from the Soviet Union, have already visited NATO headquarters in Brussels.

[2] The North Atlantic Assembly is the inter-parliamentary organisation of the 16 member countries of the Alliance, and provides a forum where North American and European parliamentarians meet to discuss problems of common concern.

and political union took place at Luxembourg on 28 and 29 June during a meeting of the European Council.

PARLIAMENTARY DEBATE

Government Statement

Opening the debate on 26 June (*Hansard*, Vol 193, No 132, cols 1011-96), the Foreign and Commonwealth Secretary, Mr Douglas Hurd, said that Britain and its Community partners were aiming to conclude the negotiations in the two European intergovernmental conferences on economic and political union at the European Council meeting to be held at Maastricht in the Netherlands at the end of 1991. 'We are not seeking or expecting any delay in decisions beyond that point. Nor are we expecting a conclusion before then.'

He acknowledged that the intergovernmental conferences, in which the Government had resolved to take a 'full and positive part', raised fundamental questions about the best structure and working methods for Europe in the coming years.

Economic and Monetary Union

Mr Hurd restated the Government's rejection of a commitment to a single European currency and expressed scepticism about the feasibility of monetary union without substantial progress towards economic convergence among Community member states. He recognised, however, that circumstances might evolve in future years whereby 'a British Parliament might wish to weigh up the political costs and opportunities of a move to a single currency in the light of economic experience. That is not something which we can prejudge either way today.' He continued: 'It would be foolish, however, to close off that option from a future Parliament or to sit on our hands while the next stage of closer monetary and economic integration is planned.'

Mr Hurd said that it was probable that some form of 'hard' ECU (European Currency Unit) would form an important element in stage two of the Delors proposals for economic and monetary integration (see pp 379-80, 1990). He added that the negotiation of a 'stage two package' which encouraged convergence on low inflation and sound public finance across the Community would be advantageous to Britain.

Political Union

Commenting on the negotiations in the intergovernmental conference on political union, the Foreign and Commonwealth Secretary outlined Britain's key objectives.

Britain rejected the ultimate channelling of all European co-operation through the community institutions established by the Treaty of Rome.[1] Mr Hurd acknowledged the necessity to have common institutions 'which are to some degree supranational', in order to develop and administer some common policies, such as the single market and negotiations on world trade. However, he did not consider such a structure appropriate in areas such as foreign and security policy or in the work of interior or justice ministers.

He continued: 'The Treaty of Rome remains the bedrock of European integration, but there is nothing intrinsically more European about channelling all co-operation through the institutions of the Community rather than proceeding, where it makes sense, through co-operation between governments directly accountable to national parliaments.'

Britain supported the proposal in the draft treaty on political union to keep intergovernmental co-operation and the institutions of the Treaty of Rome separate. Mr Hurd explained that the Government favoured 'a Europe in which separate pillars of co-operation are maintained, each reporting to the Heads of Government, sitting as the European Council'.

He emphasised that Britain could not accept an aspiration in the draft treaty to a 'federal goal', even as a distant aim. 'The ambiguity of the phrase makes it a poor and dangerous phrase to import into a text of such significance.'

Defence

Mr Hurd acknowledged the need for greater European coherence in defence matters but considered that any European defence identity must be distinct from the European

[1] The Council of Ministers, the European Commission, the European Parliament and the European Court of Justice.

Community and complementary to the North Atlantic Treaty Organisation (NATO).

He continued: 'Because the Atlantic alliance and the presence of American and Canadian forces in Europe remain fundamental to our security, we want to strengthen the existing Western European Union [WEU], and make it ... a bridge between NATO and the Twelve.' Britain had put forward proposals to achieve this end, including the setting up of a European reaction force (see p 257) and the moving of WEU's headquarters to Brussels, alongside NATO.

Rule of Law

'The Community is, and must remain, a community of law', said Mr Hurd. 'The fairness and consistency with which that law is implemented and enforced are crucial for individuals and companies.' Britain had put forward several proposals at the intergovernmental conference to improve the workings of Community institutions, the most radical of which would empower the European Court of Justice to impose fines when member states failed to comply with judgments by the Court.

Mr Hurd pointed out that between 1982 and 1989 Britain had been referred to the European Court of Justice for infringement proceedings on only 20 occasions, while Germany and France had been referred 49 and 82 times respectively and Italy 157 times. Figures also showed only one European Court of Justice judgment outstanding against Britain, compared with six against France, 12 against Germany and 37 against Italy.

'Establishing the primacy of the rule of law is a fundamental principle on both sides of the House', said Mr Hurd. Britain's proposals to that effect had gathered support among other Community member states and were included in the latest version of the draft treaty on political union.

The Government wished to encourage a more active role for national parliaments in scrutinising Community legislation and to strengthen the powers of the European Parliament to monitor the activities of the European Commission. Mr Hurd added that Britain sought to establish the principle of 'subsidiarity', whereby action should be taken at Community level only if it could not be taken effectively at national level.

Other Issues

Mr Hurd expressed the Government's reservations about proposals at the intergovernmental conference envisaging:

– extensions in qualified majority voting in the Council;

– an increase in some areas of Community competence;

– an increase in resource transfers to poorer member states;

– greater powers for the European Parliament in the Community's legislative process; and

– commitments in the social field.

Regarding the social dimension, Mr Hurd said that Britain was the only member state to have implemented all the directives in the Community social programme agreed up to the end of 1990. The Government was not prepared, however, to see Community competence extend into industrial relations practices (the 'Social Charter' – see pp 458-9, 1989). Traditions of collective bargaining in Britain were different from those on the continent.

Mr Hurd described moves 'to force industrial relations practices throughout the Community into a straitjacket' as ill-judged. He continued: 'Community legislation in this area must not push up labour costs, thereby reducing the ability of European business to compete in world markets; nor should it work in such a way as to prevent economic convergence between the performance of the Community's richer and poorer states.'

Conclusion

After 18 years of membership, Mr Hurd considered that 'the Community belongs to Britain as much as to any other member state. We have an idea of Europe that involves deepening existing co-operation and widening the Community to embrace new members. We will work for a Community that is outward-looking, that is liberal and that shoulders its fair share of international responsibility.'

Concluding, he said: 'We are trying to reconcile the advantages of the Community with the strengths of the nation state. That is without precedent in the history of Europe, or

indeed of the world, but it is in the interests of our country and of the Community that we should be full-hearted in that task.'

Opposition Views

The official Opposition spokesman, Mr Gerald Kaufman, stressed the importance of a positive British approach to the issues relating to European political and economic integration.

However, he agreed that the proposition for a common defence policy should be resisted. He explained that 'it confuses the purpose of the European Community, it unnecessarily duplicates the role of the North Atlantic Treaty Organisation and it could act as an obstacle to the desirable accession to the Community of neutral countries such as Sweden and Switzerland'.

Mr Kaufman also considered that Britain should make specific proposals to bring about economic convergence within the Community, including regional and structural policies and measures to combat unemployment.

The Liberal Democrat spokesman, Sir Russell Johnston, defended the promotion of a federal Europe, defining federalism as the limitation of centralised power. He considered that the European Parliament should be strengthened and given powers of co-decision with the Council, and should be elected under a 'common, fair, proportional system'.

He expressed support for European monetary union and considered that it was in the interests of Britain, France and Germany to work for common foreign and defence policies.

EUROPEAN COUNCIL

Prime Minister's Statement

The Prime Minister, Mr John Major, made a statement on the European Council meeting to the House of Commons on 1 July (*Hansard*, Vol 194, No 135, cols 21-41).

European Union

Mr Major said that the Council had reviewed progress in the two intergovernmental conferences on economic and monetary union and on political union which were launched in December 1990 (see p 14). He viewed the Council meeting as a 'stocktaking' rather than a decision-taking occasion. However, he confirmed that the Community aimed to reach an agreement on economic and political integration at the European Council meeting to be held at Maastricht in December 1991.

The Prime Minister made clear that he welcomed the structure of the present draft of the treaty on European union. 'The present text means that some things are done on the basis of the Treaty of Rome but others on the basis of intergovernmental action in which the Treaty of Rome does not apply and the Commission does not have the sole right of initiative.'

He also welcomed the concept of a common foreign and security policy set within the context of the Atlantic Alliance (see p 256).

The Council had agreed on the preparation of proposals to improve the implementation of Community law. Mr Major said that Britain had a good record on compliance with Community legislation and believed that 'all states that sign up to Community law should implement it'.

The Council had examined the need to strengthen the Community's external perimeter boundaries if the free movement of Community citizens was to be facilitated within it. The Prime Minister added that it had been agreed to improve co-ordinated action against drug trafficking and organised crime through the establishment of a European Criminal Investigation Office.

'I also made it clear that there were things in the present draft treaty with which I could not agree.' Mr Major continued: 'I explained that even though to many federal union implies decentralisation, the term carried the reverse implication in this country and would not be acceptable in a text to be agreed at the end of the year.' In addition, he expressed reservations about the existing text on the role of the European Parliament relating to the right of co-decision over Community legislation.

Maintaining Britain's reservation on a single European currency and a single central bank, the Prime Minister stressed the need for economic convergence among Community member states.

Political Declarations

Political declarations were adopted by the Council, which:

1 endorsed Britain's initiative to set up a United Nations register of conventional armaments transfers (see p 142), a draft resolution on which would be tabled by Community member states at the UN General Assembly;

2 endorsed a British and German initiative to improve the co-ordination of disaster relief within the United Nations system;

3 agreed, at Britain's instigation, a declaration on human rights, under which the Community would use its leverage to promote human rights through economic and co-operation agreements made with third countries; and

4 welcomed the abolition in South Africa of the remaining legislative pillars of apartheid (see p 180), and declared the Community's support for the renewal of sporting contacts with South Africa 'on a case-by-case basis where unified and non-racial sporting bodies have been set up'.

Defence White Paper

Progress in arms control and changes in Britain's defence forces following the end of the Cold War were outlined by the 1991 Defence White Paper published on 9 July.[1]

EUROPEAN SECURITY

Major changes in the European security situation have continued at a rapid pace, the White Paper points out. These include:

– the growth of democracy and freedom in Central and Eastern Europe;

– the unification of Germany;

– the abolition of the Warsaw Pact's military structure;

– the withdrawal of Soviet forces from Hungary and Czechoslovakia; and

– the planned withdrawal of Soviet troops from Poland and, by 1994, their departure from Germany.

By the mid-1990s more than 1 million fewer troops will be ranged against the North Atlantic Treaty Organisation (NATO). 'The artificial division of our continent, most obvious in the Berlin Wall, has been removed and increasingly we can regard the former communist states as peaceful neighbours and partners.'

The White Paper cautions that the process of economic and political reform in the Soviet Union and in Eastern and Central Europe remains fraught with uncertainty and that 'long-term stability is but a distant aspiration. . . . The historic nature of the changes that have occurred is not in doubt; but we need as well to note the fragility of the new Europe, and the lack of stability outside it.'

The West's Response

NATO countries set a new course for their alliance in the London Declaration of July 1990 (see pp 237-9, 1990). The aim was to respond to change, to encourage that change to take root and grow, and to preserve the insurance of strong collective defence. The transformation foreseen by the Declaration is under way. In autumn 1990 a joint declaration on peaceful relations (see p 420, 1990) was signed by the NATO allies, the Soviet Union and countries in Eastern and Central Europe. Regular diplomatic liaison has been established between these countries and NATO. In November 1990 they signed the Paris Charter for a New Europe, which provides for more confidence- and security-building measures to improve trust (see pp 417-19, 1990).

The London Declaration also noted the importance of the moves by European Community members towards political union, including the development of a common foreign and security policy. This forms part of a broad process involving NATO, the Western European Union (WEU) and the 12 Community member states. The White Paper points out: 'There is agreement between all concerned on the need to preserve a strong and healthy NATO and also to build up a stronger European security and defence

[1] *Statement on the Defence Estimates. Britain's Defence for the 90s.* Cm 1559-1. HMSO, £8. ISBN 0 10 115592 1.

identity in a way that complements the wider transatlantic partnership. NATO will remain the essential forum for agreeing policies on the security and defence commitments of its members.'

In Britain's view, NATO needs a strong European pillar, the WEU serving as a bridge between the transatlantic security and defence structures of NATO and the common political and security policies of the Twelve. To give the WEU defence substance, Britain has proposed the development of a European reaction force with its own peacetime planning arrangements, which would complement NATO.

Review of NATO Strategy

The Soviet Union's ability to mount a large-scale offensive into Central Europe is diminishing with the withdrawal of its troops and the dismantling of the Warsaw Pact. The need to mount a timely defence against such a massive threat is no longer the main focus of concern.

The White Paper, however, adds: 'The Soviet Union remains an unstable military-superpower, whose capabilities need to be counterbalanced if stability is to be preserved in Europe. These ... still present the most serious, if not the most immediate, threat to Western security. Instability in Eastern Europe or elsewhere could give rise to crises which could spill over into NATO countries and jeopardise European peace. Events outside Europe, including the proliferation of sophisticated and destructive weaponry, could threaten Alliance territory and security.'

In this situation the Alliance has set out its strategy embodying certain principles:

– the continuing validity of collective defence;

– the crucial role of the North American presence in Europe;

– the value of an integrated military structure; and

– the need for a mix of conventional and nuclear forces based in Europe.

NATO Forces

NATO force structures are being developed in the light of these principles. Smaller and more mobile conventional forces will comprise rapid reaction forces to provide an early military response to a crisis and, if necessary, contribute to defence. Main defence forces composed of active units and others will be available to deter attack and defend against any aggression. There will also be operational and strategic reserve forces.

Work is proceeding on the new force and command structures, including a multinational Rapid Reaction Corps under British command and with a multinational headquarters (see p 260).

On NATO's nuclear forces, the White Paper says that a substantial reduction in the number of nuclear weapons can be expected. A fundamental review of nuclear forces is expected to be completed later in 1991.

ARMS CONTROL

Conventional Forces in Europe

The White Paper charts progress on the control of conventional weapons in Europe. In November 1990 the 22 members of NATO and the Warsaw Pact signed the Conventional Forces in Europe (CFE) Treaty, which is designed to limit permanently the major military equipment holdings of the NATO and former Warsaw Pact countries (see pp 419-20, 1990). The maximum holdings permitted for each group of states are designed to eliminate existing imbalances in major conventional weapons in the area from the Atlantic to the Urals. Zonal limits will prevent destabilising concentrations of forces in particular regions. Ceilings limit the holdings of any one state to ensure that one country can not hold more than about one-third of the total.

The CFE Treaty also requires each country to provide detailed information each year on the size and deployment of its land and air forces in Europe. The first exchange took place as the Treaty was signed.

Under verification provisions, inspection teams will be able to check the information provided by each state through visits to declared sites and challenge inspections of other sites. Nations also have the right to inspect the destruction of equipment in excess of the Treaty ceilings and to ensure

that it has been carried out in an irreversible manner.

Once the CFE Treaty has been implemented, together with other changes that are taking place, the capacity for large-scale offensive action and surprise attack will be removed by the mid-1990s.

Follow-on negotiations to the CFE Treaty are also envisaged in order to limit the number of military personnel in Europe.

Confidence- and Security-building Measures

In November 1990 the 34 member states of the European Conference on Security and Co-operation (CSCE) agreed a package of further confidence- and security-building measures. These include:

– annual implementation review meetings;

– a communications network linking all CSCE capitals;

– provisions for the exchange and evaluation of information on military forces; and

– explanations when requested of unusual military activities.

Strategic Nuclear Forces

The White Paper looks forward to agreement between the United States and the Soviet Union on a Strategic Arms Reduction Treaty. Commenting on Britain's strategic weapons, it adds: 'If, in time, the US and Soviet strategic arsenals were further reduced substantially, and if there had been no significant improvements in defensive capabilities, we would consider how best we might contribute to the arms control process in the light of the changed circumstances. But the introduction of Trident in the mid-1990s will provide the minimum capability necessary to maintain an effective independent deterrent into the next century and the reductions in prospect would not reduce our strategic needs.'

Intermediate and Short-range Nuclear Forces

Implementation of the 1987 Intermediate Nuclear Forces Treaty between the United States and the Soviet Union was completed on schedule in May 1991. All US ground-launched Cruise missiles were removed from Britain by March 1991.

At the London NATO summit in 1990 Alliance leaders proposed new negotiations to reduce US and Soviet short-range nuclear forces. They also proposed the withdrawal of all NATO nuclear artillery shells from Europe once the negotiations had started, subject to reciprocal action by the Soviet Union. NATO preparations for the negotiations are under way.

Nuclear Testing

On nuclear testing, the White Paper welcomes the ratification by the United States and the Soviet Union of the 1974 Threshold Test Ban Treaty and the 1976 Peaceful Nuclear Explosions Treaty.

The Government supports a comprehensive test ban as a long-term goal but does not believe that a ban at present would enhance recent arms control progress. The White Paper says that deterrence is necessary to prevent war and that this requires testing of British nuclear weapons.

Nuclear Non-Proliferation

Referring to the Non-Proliferation Treaty (see pp 307-8, 1990), the White Paper says that a further conference to consider aspects of the Treaty will be held in 1995, when it comes up for extension. Britain favours a substantial, preferably indefinite, extension. The Government has warmly welcomed France's decision to sign the Treaty. 'We attach great importance to the Treaty's membership being as wide as possible, so as to maintain an effective nuclear non-proliferation regime.'

Chemical Weapons

A global chemical weapons ban has long been a British and Western arms control priority, says the White Paper. The United States is committed to renounce its right of retaliation with chemical weapons once a convention enters into force and to destroy all its chemical weapons stocks within ten years of that date. In June 1990 the United States and the Soviet Union agreed to stop producing chemical weapons immediately and to begin the phased elimination of their stocks. Entry into force of the agreement has been delayed because of Soviet difficulties with its destruction timetable. Both countries have declared their intention to accelerate the destruction

process once a global ban on production enters into force. All United States chemical warfare stocks have been removed from Europe.

Britain continues to play a major part in the Geneva negotiations and has submitted the results of its practice challenge inspections (see pp 276-7, 1990, and p 263). This work was widely welcomed as a positive contribution to further progress.

Britain has export controls to curb proliferation of chemical weapons. These are kept under constant review. The Government also favours the harmonisation of its export controls with those of other countries. These are worked out through the 'Australia Group', which includes 14 NATO members. In May 1991 the Group agreed that all members would control exports of 50 particularly significant precursors of chemical weapons. Stricter national controls have been introduced by Britain on production equipment and technology.

Biological Weapons

The British biological weapons capability was abandoned after 1945. Britain is one of over 110 states which are party to the 1972 Biological and Toxin Weapons Convention, which bans the development, production and stockpiling of such weapons. The Third Review Conference of the Convention will take place in September 1991 and will focus on effective verification measures. The Government has highlighted the dangers of inadvertent transfer of resources or technology that could aid proliferation and has fully reviewed its export controls. As a result the introduction of new measures is in hand.

Control of Arms Sales

The White Paper devotes a separate section to the problem of arms build-up by countries wanting more weapons than are needed for defence. In April 1991 Britain proposed the establishment of a United Nations register of arms sales to help monitor and control the scale of any arms build-up and to provide warning of countries assembling excessive military forces.

British policy on arms transfers is to meet the legitimate needs of friendly countries, provided that there are no good security reasons for denial. Military exports and those of some civil equipment are controlled through the issue of export licences.

BRITAIN'S ARMED FORCES

Taking into account developments in Europe, the Government is carrying forward the Options for Change proposals first outlined in July 1990 (see pp 275-6, 1990). Britain's armed forces will retain their current roles in the Alliance. These are:

– the provision of nuclear forces;

– direct defence of Britain;

– a contribution to the defence of the European mainland; and

– maritime defence of the eastern Atlantic and the Channel.

The White Paper continues: 'Changing circumstances permit a reduction and restructuring of forces for some of these roles, but the requirement remains for armed forces that are properly manned, supported and well equipped.'

Nuclear Forces

The Government believes that Britain's independent strategic nuclear forces remain the cornerstone of its defences. A credible and invulnerable nuclear deterrent, based from the mid-1990s on a force of four Trident missile submarines, will therefore be provided. As with the present Polaris system, the new submarines will be assigned to NATO while remaining at all times under the control of the British Government.

All three services deploy sub-strategic nuclear weapons – those with a range of less than 5,500 km. The Royal Air Force (RAF) will continue to make Britain's major contribution in this area in support of NATO and to provide a national independent sub-strategic deterrent. The nuclear-capable Tornado force will be reduced by three squadrons, leaving four squadrons of strike/attack Tornados based in Germany and four based in Britain. This changeover, already under way, will be completed during 1994.

Defence of Britain

British air defences will be organised around a radar-based air defence system and seven

squadrons of Tornado F3 aircraft; seven Boeing E-3D aircraft will provide early warning of any attack and 50 Hawk aircraft will take on the daylight fighter role. The Phantom aircraft is being retired in 1993. At the end of the decade the European Fighter Aircraft will play an increasing part in air defence. Rapier surface-to-air missiles will continue to provide short-range air defence.

A substantial flotilla of minor war vessels will be retained to carry out mine countermeasures tasks and other operations in defence of the home base. Modernisation of these forces will continue.

The European Mainland

The White Paper stresses that the defence of the European mainland is an essential part of Britain's defences. 'It remains politically and militarily essential for NATO that US, British and Canadian forces remain on the continent in peacetime.'

The strength of the British Army of the Rhine is expected to be reduced from 55,000 to around 23,000. Two of the four RAF bases in Germany – RAF Wildenrat and RAF Gutersloh – will cease operating as flying-stations by the end of 1992 and 1993 respectively. From 1992 Britain will no longer contribute to NATO's standing Air Defence Force in mainland Europe. Two of the British-based strike/attack squadrons will be equipped with Tornado GR1a to undertake tactical reconnaissance. British-based Harrier aircraft will remain available for deployment in support of operations on NATO's flanks, as will Jaguar aircraft based at RAF Coltishall.

The Royal Navy's amphibious ships will be earmarked, among other tasks, for the defence of NATO's northern flank. There will be two new assault ships and the three older ones will be substantially refurbished. An aviation support ship will be procured to deploy helicopters.

Following a request from the German Government, Britain is contributing to an Allied presence in Berlin for as long as Soviet forces remain in Germany. The current brigade's armoured squadron and one of the three infantry battalions will be withdrawn in early 1992.

There is no longer a British resident garrison in Gibraltar. Its tasks are now the responsibility of the Gibraltar regiment.

Maritime Operations

The Royal Navy will continue to make an important contribution to maritime operations in the Eastern Atlantic. Three aircraft carriers will be retained, with two operational at any time, armed with Sea Harrier and Sea King aircraft. The Sea Harriers are being modernised to provide an improved long-range air defence for the fleet.

About 40 destroyers and frigates will be maintained. The move from the present level of 46 ships will be made by withdrawing older vessels and introducing new Type 23 frigates into the fleet. By the end of the century, it is planned to replace Type 42 destroyers by new frigates that will provide local area air defence to groups of ships operating against submarines or taking part in amphibious operations.

In addition to the four Trident submarines, there will be a submarine fleet of about 16 boats, three-quarters of which will be nuclear powered.

The Buccaneer strike/attack force at RAF Lossiemouth is to be replaced by two squadrons of strike/attack Tornados equipped with the Sea Eagle anti-ship missile.

NATO's Rapid Reaction Corps

Britain will provide a permanent commander and a significant number of troops to the recently agreed NATO Rapid Reaction Corps. British contributions to the Corps will include an air mobile brigade and a strong armoured division based in Germany.

Size of the Armed Forces

The Royal Navy and Royal Marines will be reduced in number from the present requirement of 63,000, including trainees, to around 55,000. This will mean a total trained strength of 48,000 rather than 56,000. Related reductions will be made in the civilian personnel supporting the Navy.

Army numbers will be cut to about 116,000 by the mid-1990s from the present strength of about 156,000; total trained strength will be reduced from 144,000 to 104,000. Although this will mean the disbandment and amalga-

amation of some units, the regimental system will remain an important feature of the Army.

RAF numbers will be reduced from 89,000, including trainees, to around 75,000 by the mid-1990s. Locally employed civilians in Germany will be cut by 40 per cent. Reductions will also be required in civilian support staff; the Government aims to reduce these by 20 per cent.

DEFENCE ACTIVITIES OUTSIDE NATO

Events in the Gulf dominated Britain's involvement in military activity beyond the NATO area. The White Paper gives a detailed account of events following Iraq's illegal invasion and occupation of Kuwait (see pp 277-80, 1990) and Britain's decision to commit forces as part of a coalition led by the United States and Saudi Arabia. It details Britain's part in the campaign to free Kuwait, following Iraq's refusal to abide by UN resolutions calling for its unconditional withdrawal.

Britain's other commitments outside the NATO area include garrisons in the Falkland Islands, Hong Kong, Belize and Cyprus.

Military assistance is also given to overseas governments. Training teams are assisting Namibia, Zimbabwe, Mozambique, Brunei, Oman and Saudi Arabia. Smaller teams are supporting 23 other governments.

The White Paper also describes the role of the armed forces in Northern Ireland. Security policy is to uphold democracy and the rule of law and to ensure that the fight against terrorism is pursued with all appropriate resources available within the law. The armed forces support the Royal Ulster Constabulary in implementing this policy.

THE DEFENCE BUDGET

Estimated expenditure in 1990-91 was £22,285 million and cash provision for 1991-92 is £24,027 million, which includes £1,157 million principally to cover Gulf-related costs. Cash plans for 1992-93 and 1993-94 are £23,350 million and £23,390 million respectively, although these will be reviewed in the light of further work on the Options for Change proposals and the consequences of the Gulf conflict.

It remains the Government's objective to reduce the proportion of gross domestic product (GDP) taken by defence in coming years. Britain devotes 4 per cent of GDP to defence, compared with 5·6 per cent by Greece, 5·5 per cent by the United States and 4·5 per cent by Turkey. The other NATO member states have a lower proportion of GDP devoted to defence.

In 1991-92 the defence equipment budget is £9,271 million, representing 39 per cent of the total. The White Paper provides information on Britain's co-operation with other countries on the procurement of defence equipment. It also describes the main items of equipment provided for the armed forces.

The Government plans to spend £425 million on defence research in 1991-92. This represents about 17 per cent of planned research and development spending. It remains the Government's aim to achieve a gradual reduction in government-funded defence research and development over the next decade.

European Security

Meeting in Berlin on 19 and 20 June, the council of foreign ministers of countries of the Conference on Security and Co-operation in Europe set up a new procedure for consultation and co-operation in case of emergencies. Arrangements to establish another procedure for settling disputes peacefully were also agreed by the council.

The council of foreign ministers was established in the Charter of Paris, signed by countries of the Conference on Security and Co-operation in Europe (CSCE) in November 1990 (see pp 417-19, 1990), to provide 'the central forum for political consultation within the CSCE process'. The council is supported by a committee of senior officials, additional meetings of CSCE representatives to discuss urgent questions, and a secretariat, which has been set up in Prague.

Also established under the Charter is a new Conflict Prevention Centre in Vienna. The

centre is run by a consultative committee drawn from representatives of CSCE participating states, supplemented by experts where required.

Procedure for Emergency Situations

The new procedure for consultation and co-operation, adopted by the foreign ministers, is designed to deal with emergency situations that could arise from a violation of one of the principles of the 1975 Helsinki Final Act (see pp 348-9, 1986) or as the result of 'major disruptions endangering peace, security or stability'. In applying this new mechanism, all the principles of the Final Act, including the principle of non-intervention in internal affairs and those of the 1990 Charter of Paris, would be 'equally and unreservedly applied'.

The Mechanism

Ministers agreed that, if any participating state concluded that an emergency situation was developing, it could seek clarification from the relevant state or states, giving them 48 hours to provide all relevant information. Should the situation remain unresolved, any of the participating states could ask a committee of senior officials to hold an emergency meeting, with the committee's chairman contacting the states involved within 24 hours. Once 12 or more other states had supported the request within a further 48 hours, the chairman would immediately notify all states of the date and time of the meeting, which would have to be held within the following two or three days.

Emergency Meeting

The council agreed that 'no judgment as to the facts nor any possible dispute as to the validity of the reasons offered for requesting the emergency convening of a meeting' could be invoked for postponing or preventing one. The meeting would last no more than two days, unless otherwise agreed. Its agenda would consist of a single item, which would be identical to that contained in the notification, and which would not be open to amendment.

In the light of its assessment of the situation, the meeting of officials would be able to agree on recommendations or conclusions to arrive at a solution. It could also decide to convene a ministerial meeting.

Peaceful Settlement of Disputes

Foreign ministers also endorsed a report of the Valletta meeting of experts (held in Malta in January and February 1991) recommending a CSCE procedure for settling disputes peacefully.

Control of Weapons Proliferation

The need to control weapons proliferation through effective international agreements was emphasised by Mr Douglas Hogg, Minister of State at the Foreign & Commonwealth Office, during a speech at the Conference on Disarmament in Geneva on 6 June.

Mr Hogg said that the last 12 months had seen the culmination of an unprecedented era in arms control negotiations (see pp 257-9). At the same time, Iraq's military policy (see pp 138-41) had highlighted the dangers of weapons proliferation and of arms transfers and the arms trade.

Arms Sales

Mr Hogg said that, while arms sales were not inherently reprehensible since countries had a right to defend themselves, suppliers had to exercise greater responsibility in the supply of armaments. 'The priority must be to constrain the supply and availability of weapons of mass destruction and the materials needed for their manufacture', the minister said.

The problem was to effect a proper balance between the need to check the unjustified accumulations of offensive armaments with the legitimate defence needs of individual countries. Britain was therefore ready to start discussions on these issues with other major arms-exporting countries. There was a need for greater transparency in the global arms trade, and the work of a United Nations study group, in which Britain was playing a leading role, could provide the basis for a decision at the forthcoming General Assembly to

establish a universal UN register of arms sales.[1] Mr Hogg pointed out that the European Community and the United States had endorsed such a register, which would enable the world to monitor the scale of arms build-up in any one country.

Nuclear Testing

Mr Hogg reaffirmed Britain's adherence to the Partial Test Ban Treaty[2] and its commitment to a comprehensive test ban as a long-term objective, 'reached on a step-by-step basis in the context of general and complete disarmament'.

Chemical Weapons Convention

The long-term answer to preventing the proliferation of chemical weapons would be the agreement on an effective global ban, Mr Hogg continued. The Government supported the proposal of the United States President, Mr George Bush, to have all the major outstanding issues resolved by the end of 1991 and the convention ready for signature by mid-1992 (see p 251).

Verification

A key issue yet to be resolved was verification. Britain had made a number of practice challenge inspections at government facilities, the results of which had been given by Britain at the Conference on Disarmament in 1990 (see pp 276-7, 1990). These challenge inspections did not, however, include an inspection of a civil chemical site, where there was a problem of continuing commercial confidentiality. Following a test of a civil chemical site made since then, the Government concluded that:

– although a breach of a convention would be more difficult to detect at a civil plant, an evader had a significant risk of being discovered after a wide-ranging inspection;

– the need to protect legitimate commercial confidentiality could be reconciled with the requirements for extensive access to civil plants; and

– the system of managed access developed at sensitive government facilities worked well, with suitable adaptation, in industrial plants.

Mr Hogg accepted that, although challenge inspection was the key to effective verification, it was not the only method being developed. He therefore welcomed new proposals by Sweden for an integrated approach to the routine verification of the chemical industry.

Other Issues

If the chemical weapons convention were to be ready for signature in 12 months' time, Mr Hogg said, other issues had to be tackled too. These included:

– the need for an efficient, cost-effective organisation, funded by a clear and equitable system of contributions;

– an effective decision-making procedure to oversee the convention's implementation;

– a procedure for penalising parties which breach the convention, especially those which use chemical weapons; and

– the need for parties to act together to prevent non-members from acquiring the means to make chemical weapons.

Mr Hogg concluded: 'We want an effective convention that will not only ban chemical weapons, but deter even the most unscrupulous regime from ignoring that ban in future. Such a convention is now within our grasp.'

[1] Britain co-sponsored a UN resolution in 1988 which led to the establishment in January 1990 of a group of experts from 20 countries to enquire into transparency in arms transfers.

[2] Signed in 1963 by Britain, the Soviet Union and the United States, this treaty prohibits nuclear explosions in the atmosphere, in outer space or under water.

Hong Kong

In a joint statement issued on 4 July, Britain and the People's Republic of China agreed to intensify their co-operation on Hong Kong, and particularly on the question of the construction of a new airport there.

Mr Hurd's Statement

Speaking to the House of Commons on 4 July (*Hansard*, Vol 194, No 138, cols 450-1), the Foreign and Commonwealth Secretary, Mr

Douglas Hurd, said that the two governments had initialled a memorandum of understanding which would provide 'a firm basis for building a modern airport to serve the expanding needs of Hong Kong and the future special administrative region' (see pp 109-10, 1990). The Chinese Government had expressed 'in the clearest possible terms their support for the airport project and have undertaken to provide clear assurances to investors'. The outcome of the discussions, he concluded, would provide 'a fresh impetus to international confidence in the continuing success of Hong Kong'.

In a joint statement accompanying the memorandum, Mr Hurd said, the two governments confirmed their wish to deepen their co-operation over Hong Kong within the framework of the joint declaration (see pp 368-74, 1984) and their confidence in the territory as an international economic, financial, and trading centre.

Mr Hurd said that the Chinese Government had invited the Prime Minister, Mr John Major, to visit China, where the two government leaders would sign the memorandum.

Noting that much work had to be done if they were to ensure a smooth transition in 1997 and to give the Hong Kong special administrative region the best possible basis for success after that, Mr Hurd said that China had agreed that in future the two foreign ministers should meet twice a year to discuss the territory and other questions. Meetings between the Governor of Hong Kong and Chinese officials were also being put on a regular basis.

Memorandum of Understanding

Projects

The memorandum said that China would support the construction of the new airport while the Bank of China would play an appropriate part in, for example, the syndication of loans for the airport projects. Chinese construction firms would also be able to compete for projects connected with the airport.

Consultation

On important matters relating to the airport – a project that will straddle the transition on 30 June 1997 – the Chinese and British governments will consult within an airport committee constituted under the Sino-British joint liaison group and with a membership drawn equally from both sides. Its task will be to consider:

– major airport-related franchises, contracts and guaranteed airport-related debts; and

– any major airport project (other than those core progress projects described in the memorandum) before the Hong Kong Government proceeds with it, and any of the core progress projects for which the bulk of government expenditure will fall after 30 June 1997.

In addition, the following will be instituted:

– an airport authority, the board of which would include a full member of the Bank of China, to help in constructing the airport, with the Hong Kong Government retaining power to direct the authority and responsibility for key areas of policy up to June 1997; and

– a consultative committee, to discuss any relevant matter on the new airport and related projects, but with no decision-making powers.

Finance

China agreed that it would adopt a 'positive attitude to necessary and reasonable borrowing' by the Hong Kong Government. The territory would be allowed to borrow up to HK$5,000 million (about £400 million) for repayment after June 1997, provided that the Chinese Government was informed. A bigger loan would also be allowed, provided a common view were reached concerning the proposal.

The Hong Kong Government would plan its finances to ensure that Hong Kong's total reserves would not be less than HK$25,000 million on 30 June 1997. (The present reserves are HK$72,000 million.)

Yugoslavia

European Community foreign ministers are seeking to bring peace to Yugoslavia following the outbreak of violence in the breakaway

republic of Slovenia towards the end of June 1991.

Federal Yugoslav troops intervened in Slovenia following the republic's declaration of independence on 25 June. The republic of Croatia also declared independence on the same day. Two visits were made within three days by the Italian, Dutch and Luxembourg foreign ministers in an effort to stop the fighting, but without success.

A diplomatic mission was sent by European Community (EC) member states in early July to see if they could help monitor a durable ceasefire in Slovenia and a withdrawal of federal forces.

Following a meeting in Brioni on 7 July, a joint declaration was issued by foreign ministers from the European Community and representatives from the Yugoslav federal government and the republics of Croatia and Slovenia. Community member states were represented by the Dutch, Luxembourg and Portuguese foreign ministers.

The Brioni Declaration

The Brioni Declaration affirmed:

– a commitment to implement proposals, made by the EC foreign ministers on 30 June, for a ceasefire and negotiations on the future of Yugoslavia; and

– the need to start negotiations without preconditions on all aspects of the future of Yugoslavia by 1 August 1991.

Signatories also agreed that the protection of minorities was 'critical to a successful outcome of the negotiations', and that by 8 July:

– the blockade of federal military and facilities should be lifted;

– federal military forces should be returned to their barracks;

– republican territorial defence units should be stood down;

– all federal facilities and equipment should be returned; and

– all prisoners should be released.

For their part, EC member states agreed to provide a monitoring mission, which would report to the Prague Secretariat of the Conference on Security and Co-operation in Europe.

British Views

In a statement to the House of Commons on 3 July (*Hansard*, Vol 194, No 137, cols 328-9), the Foreign and Commonwealth Secretary, Mr Douglas Hurd, said that Yugoslavia's problems would not be resolved by the use of force and that any further military action would lead inevitably to widespread bloodshed. The army's actions had accelerated Yugoslavia's disintegration. The necessary discussion on the country's future could not resume 'until the military return to their barracks and place themselves once again under full civilian control'.

Iraqi Refugees

British and other coalition forces are being redeployed from northern Iraq, where they have been assisting Iraqi refugees under threat of repression by the Iraqi regime.

British Statement

The Foreign & Commonwealth Office issued a statement on 12 July explaining that the aims of the relief operation, undertaken by Britain and its coalition partners (see pp 182-3), had been achieved. Britain's response to the humanitarian crisis in northern Iraq had comprised two elements. The first was to keep the Iraqi refugees alive and the second was to create conditions in which they could return home in safety.

The statement noted that almost all of the 400,000 refugees who had fled to the mountains in the area of the allied safe havens had returned home. The refugee camps were closed and the transit stations were almost deserted. British forces had helped to restore water and power supplies, to establish food distribution and basic sanitation systems, and to provide health care for those in need.

To enable the refugees to continue to rebuild their lives the Government

considered that four elements should be in place:

1 There should be an active and visible United Nations presence in Iraq (see p 182). In addition to its humanitarian personnel, the United Nations has deployed nearly 300 of a planned contingent of 500 security guards in Iraq. The European Council agreed to meet the shortfall in the costs of this operation up to the end of 1991. The deployment of the guards is 'an important demonstration of the determination of the international community that [UN] Security Council resolution 688 [see p 141] will continue to be observed'.

2 The sanctions regime against Iraq, established under UN Security Council resolution No 687 (1991) (see pp 138-41) will be maintained in order to make the Iraqi Government comply with its international obligations.

3 Warnings have been issued to the Iraqi Government by the coalition members that renewed repression of the civilian population in either northern or southern Iraq will not be tolerated. No Iraqi aircraft should fly north of the 36th Parallel and Iraqi ground forces should remain outside the security zone in northern Iraq set up by the coalition. The coalition will undertake reconnaissance and other air operations above the 36th Parallel as needed and will monitor events in Iraq closely.

4 Steps are being taken by the coalition partners to deploy a multinational force in the region, including substantial air power. Britain has offered to contribute a company of Royal Marines and support elements to this force, which 'will provide the people of northern Iraq with the necessary reassurance that Baghdad's repression ... will not be renewed'.

Concluding, the Foreign & Commonwealth Office statement said: 'The forces which remain in the region will continue to act as a deterrent to any Iraqi behaviour which might threaten peace and security. They will be prepared, if circumstances so demand, to respond swiftly: to go back in, if necessary, to protect the safety of the refugees and UN personnel and to take any other action as may be required.'

Aid Policy

Britain's views about the connection between 'good government' and the provision of aid were outlined by the Minister for Overseas Development, Mrs Lynda Chalker, during a speech at Chatham House, London, on 25 June.

Good Government

Noting that authoritarian regimes could not deliver sustainable progress, Mrs Chalker said that the most important job of government in developing countries was to promote sound economic and social policies, which were necessary for sustainable development. 'Good government' (see pp 208-9, 1990) also involved:

– the introduction of market forces and competition to ensure a more efficient use of resources;

– the adoption of sensible tax regimes; and

– the establishment of clear and workable rules for entrepreneurs.

Mrs Chalker also pointed out that social policies were an important aspect of sound economic planning so that poverty, illiteracy and disease could be tackled. If governments were to give priority to such policies, the minister stressed, they could not afford to waste resources on non-productive areas. It was vital for developing countries to examine their security needs and tailor their military expenditure. Good governments had to be 'fair and equitable and provide the necessary services effectively and efficiently, affordably and hence sustainably'.

Competent Government

The second aspect of good government was competence. Through scholarships and training, Britain was attempting to improve the quality of administrators, lawyers, police officers, customs officers and other experts. In 1989 over one-third of British aid was given as technical assistance.

Democracy

To operate effectively, Mrs Chalker said, individual government officials had to work within open and accountable systems. Britain was seeking to promote pluralistic systems

which would work for, and respond to, individuals in society, and this meant, in political terms, democracy, although this did not mean a rigid model. Open government and a free press were vital safeguards to ensure that bad practices and failures were exposed and that governments responded to the needs of their citizens.

Human Rights and Rule of Law

Respect for human rights and for the rule of law, Mrs Chalker continued, was the third aspect of good government. Individuals would not be able to play a full role in development unless their rights were fully respected and they were allowed to operate in an open and fair legal system. Britain did not believe that it was an interference in the internal affairs of sovereign states to raise human rights violations with them.

Good Government and Aid

Mrs Chalker said that the idea of conditionality in support of economic reforms was well established, as was the link between human rights and development. On the question of introducing new elements of conditionality into aid policy, Mrs Chalker commented: 'Aid cannot be given in a policy vacuum. If we believe our aid is not going to be used effectively to help those for whom it is intended, I am duty bound to ask how its effectiveness can be safeguarded. If it cannot be, I have to question whether it should be spent at all. Our resources are finite and neither we nor recipients of our aid can afford to see them wasted.'

British Contribution

Although a major element of Britain's aid policy was directed to the support of economic reform, increasing attention was to be given to:

– involving the poor directly in reducing poverty and in decision-making, planning and implementation of other projects;

– the participation of women in development, through the improvement of health and education;

– the support of democratic and other structural reform, such as helping to organise and monitor elections, and assisting regional government reforms, local non-governmental organisations, the media, and community groups;

– the promotion of the private sector, in particular small enterprises;

– improving financial accountability standards in government and other institutions;

– improving the functioning of government;

– monitoring and promoting human rights through legal reforms and training police forces to improve adherence to proper procedures and the rule of law;

– increasing the independence and competence of legislatures; and

– curbing excessive defence spending.

During 1991-92, Britain plans to spend £28 million:

– £5 million for local government in Zambia;

– £2 million for civil service reform in Ghana;

– £2·6 million for helping to improve financial management in central government and to strengthen local government in Tanzania; and

– £1 million for public administration training in India.

New Commitments

Mrs Chalker announced a target for direct assistance on good government of £50 million in new bilateral commitments in the coming year, covering:

– government-to-government assistance to the legal sector, prisons, customs services, public administration, public expenditure management, accounting and auditing; and

– the processes and institutions needed for democratic and pluralistic structures, a free press and human rights.

Conclusion

Mrs Chalker said that both developed and developing countries recognised that Britain's policy was 'aimed at ensuring respect for fundamental human rights while increasing aid effectiveness and enhancing develop-

ment'. Britain would continue to expand its activities in this area and press other countries to do likewise.

In 1990 total trade between Britain and Albania was £5·5 million.

Source: Foreign & Commonwealth Office press conference, 29.5.91.

Shorter Notes

RELATIONS WITH ALBANIA

Britain and Albania have agreed to restore diplomatic relations.

In a formal statement issued on 12 June, the two governments agreed to re-establish relations from 29 May and to develop or encourage co-operation and exchanges in the economic, trade, cultural, technical, scientific and other fields. In addition, delegations would discuss the full and final settlement of issues outstanding between the two countries.

The announcement follows discussions between Britain and Albania earlier in May, when they agreed in principle to restore diplomatic links.

At a meeting in Berlin later in June, Albania became the thirty-fifth member of the Conference on Security and Co-operation in Europe (CSCE), accepting all the commitments set out in the Helsinki Final Act, the Charter of Paris and other CSCE documents (see p 261).

ENVIRONMENTAL AID FOR EASTERN EUROPE

The Government has pledged £5 million to set up an Environmental Programme for Eastern Europe. The announcement was made on 21 June by the Secretary of State for the Environment, Mr Michael Heseltine, speaking at the Environment for Europe conference in Prague.

The Programme is an extension to the know-how fund (see pp 13, 131 and 425, 1990, and p 186) and will have £5 million available over three years to facilitate the exchange of environmental expertise. It will work both to bring Eastern Europeans to Britain to study and to make it possible for Britons to spend time in Eastern Europe working alongside their Eastern European counterparts. Mr Heseltine stressed the need for international co-operation to tackle global environmental problems.

Source: Department of the Environment news release, 21.6.91.

Economic and Scientific Affairs

Local Government Finance and Valuation Bill

The Local Government Finance and Valuation Bill was given its second reading in the House of Commons on 3 June.

PARLIAMENTARY DEBATE

The Bill received its second reading by 275 votes to 200, a government majority of 75 (*Hansard*, Vol 192, No 115, cols 54-119).

Government View

The Bill was introduced by the Secretary of State for the Environment, Mr Michael Heseltine, who described its aims. First, the Bill was designed to strengthen the Government's power to cap local authority spending. Secondly, the Bill provided the powers needed for setting the valuation bands for domestic properties in preparation for the introduction of the council tax in April 1993 (see pp 173-5).

Charge Capping

Mr Heseltine believed that strong capping powers were essential as a means of ensuring that local authority expenditure could be restrained and that community charges were set at acceptable levels. He asserted that, in England in 1990-91, authorities had used changes to the system as a smokescreen to hide vastly increased expenditure, amounting to an increase of more than one-quarter over the two-year period to April 1991.

Previously, the Government had been unable to cap authorities which budgeted below £15 million a year, however excessively they were believed to be spending. Mr Heseltine claimed that there were clear examples of authorities deliberately setting their budgets at a point marginally below £15 million to avoid capping. Therefore, the Bill proposed eliminating the threshold, thus making authorities which budgeted below £15 million eligible for capping. Also, the Bill proposed bringing the powers to cap Scottish authorities into line with the more extensive powers available in England and Wales.

Mr Heseltine asserted that, if the Bill were approved, then charge payers everywhere would have protection against excessive budgeting.

Council Tax Banding

Under the proposed council tax, properties would be allocated to one of seven valuation bands. People in the lowest band of property in an area would pay two-thirds of the amount that those in a middle-band property in that area paid. People in a highest-band property would pay two-thirds more than those in the middle band in the same area. Thus, a household in a highest-band property would pay two-and-a-half times as much as one in the lowest band.

The Bill would provide the power for the allocation of domestic properties to bands to be carried out. It would not, however, be necessary to value precisely every house or flat. The Bill would ensure that access could be had to the information used in checking allocations. There would be safeguards on the use of that information.

The Government intended that private sector valuers should undertake much of the valuation work, although the overall process would be supervised by Inland Revenue commissioners. In Scotland assessors of non-domestic properties collaborated with the Inland Revenue. This collaboration would be

extended to the domestic sector. Throughout Britain there would be a right of appeal.

Opposition View

Speaking for the official Opposition, its chief environment spokesman, Mr Bryan Gould, said that the Labour Party was wholeheartedly opposed to the principle of capping. Instead, the correct controls over local government spending were those exercised by the electorate through the ballot box. Mr Gould believed that the extension of capping powers represented universal capping, which he claimed Mr Heseltine had previously opposed.

Mr Gould saw the extension of capping powers as evidence that the Government was no longer even paying lip service to the principle of local government autonomy. Instead, the Bill was a statement of no-confidence in the whole of local government, as under its provisions every local authority budget would be set within the limits imposed by the Secretary of State. If the £15 million threshold had not been in force in 1991-92, large numbers of local authorities would have had to be capped, Mr Gould believed. The centralisation of power that the Bill involved meant the end of local government as it had been known for more than a century.

Mr Gould described the banding system as indefensible. He said that a 14-band system with a top band of £500,000 or so had been considered but had been dropped in favour of the seven-band system with a £160,000 ceiling. The consequence of disposing of the top range of bands was that households lower down the scale would have to pay more than they would have done under the 14-band system. Mr Gould also claimed that bills per household would be higher on average than under Labour's fair rates proposal.

Overseas Direct Investment by Companies

Net direct investment overseas by British companies rose by 3 per cent between 1988 and 1989, showing further development of global businesses by British companies through acquisition and merger. Corresponding investment in Britain by overseas companies grew by as much as 71 per cent. There was an excess of outward over inward investment of £4,012 million. Investment to and from the rest of the European Community rose less sharply than in 1988. Earnings from outward investment exceeded outgoings from inward investment by some £7,800 million.

Provisional figures (see table) suggest that outward net direct investment[1] fell by more than half between 1989 and 1990, to reach £10,408 million. Inward investment stabilised in 1990, having increased by only 3 per cent, compared with a 71 per cent increase in 1989. In 1990 inward investment was £7,576 million more than outward investment. Earnings from outward investment rose by 7 per cent; outgoings from inward investment fell by 17 per cent.

These findings are from the annual inquiry conducted by the Central Statistical Office, the main results of which were published in *Business Bulletin 33/91, Overseas Direct Investment (1989)* in May 1991. Because of the provisional nature of data for 1990, this article deals mainly with the analysis for 1989. The detailed analysis excludes investment in the miscellaneous sector (mainly property transactions), for which there is no breakdown available.

Long-term Trends

Outward investment expressed as a percentage of gross domestic product (GDP) fluctuated between 1 per cent and 3 per cent from the early 1960s until the mid-1980s. The figure then increased sharply as British companies made major acquisitions abroad to establish and build on their global market presence. The percentage reached nearly 5 per cent in 1987, falling slightly to just over

[1] Direct investment overseas consists of long- and short-term funds given by an investor in one country to overseas affiliates (subsidiaries, associates and branches) in the form of share capital, loans, trade credit and retained profits. It is measured net, after deducting loans made by the affiliates to their direct investors. As this article is concerned only with net direct investment, the words 'net direct' are omitted from the text after this point.

Net Overseas Direct Investment, Earnings and Outgoings

£ million

	1984	1985	1986	1987	1988	1989	1990*
Outward direct investment overseas							
Investment							
Non-oil companies	3,541	6,787	11,019	15,839	17,727	20,219	9,667
Oil companies	2,272	1,838	778	3,320	3,101	1,332	727
Total excluding miscellaneous transactions	5,813	8,625	11,798	19,159	20,827	21,550	10,394
Miscellaneous transactions	190	–183	–15	39	34	6	14
Total	6,003	8,442	11,783	19,198	20,861	21,556	10,408
Earnings							
Non-oil companies	4,889	5,169	6,658	7,990	10,853	12,363	13,210
Oil companies	2,829	2,462	1,046	2,901	2,938	4,273	4,601
Total excluding miscellaneous transactions	7,718	7,631	7,704	10,892	13,791	16,637	17,811
Miscellaneous transactions	106	101	103	61	58	64	67
Total	7,824	7,732	7,807	10,953	13,849	16,701	17,878
Inward direct investment in Britain							
Investment							
Non-oil companies	2,021	1,572	2,898	6,395	7,098	14,344	13,882
Oil companies	–2,267	2,206	1,930	1,619	2,692	2,031	2,983
Total excluding miscellaneous transactions	–246	3,778	4,828	8,015	9,789	16,375	16,865
Miscellaneous transactions	65	90	192	463	446	1,169	1,119
Total	–181	3,868	5,020	8,478	10,235	17,544	17,984
Outgoings							
Non-oil companies	2,965	3,505	2,982	4,172	6,317	5,619	3,928
Oil companies	3,306	3,997	2,203	2,650	1,965	3,202	3,388
Total excluding miscellaneous transactions	6,271	7,502	5,185	6,821	8,282	8,821	7,316
Miscellaneous transactions	8	8	8	30	54	81	88
Total	6,278	7,510	5,192	6,851	8,336	8,902	7,404
Earnings less outgoings	1,546	222	2,615	4,102	5,513	7,799	10,474

*Provisional.
Note: Differences between totals and the sums of their component parts are due to rounding.

4 per cent in 1989. The provisional figure for 1990 is 2 per cent.

As a percentage of GDP, inward investment remained below 2 per cent until the late 1980s, the figure having been practically zero around 1984. Since 1984 it has risen steadily to reach some 3·25 per cent, as a provisional estimate, by 1990.

Outward Investment

Outward investment increased by 3 per cent between 1988 and 1989 to £21,550 million, compared with the revised figure for 1988 of £20,827 million. Outward investment by non-oil companies increased by 14 per cent in 1989 from £17,727 million to £20,219 million. Investment by oil companies fell to less than half its 1988 value, from £3,101 million to £1,332 million. Within the non-oil sector outward investment by banks increased sharply from £31 million in 1988 to £806 million; and by insurance companies, from £325 million to £868 million.

Over two-thirds of total outward investment in 1989 was due to British companies acquiring the share and loan capital of overseas companies, which was 20 per cent higher than in 1988, at over £13,000 million. This reflected the high level of cross-border acquisitions and mergers (see pp 192-6) but was partly offset by the disposals of overseas companies' share and loan capital and demergers, amounting to £3,569 million.

Outward Investment by Area

In 1989, 54 per cent of British outward investment was in the United States. British investment in European Community countries, at £5,658 million, equalled a quarter of the total. There had been a sixfold increase in investment in France from 1987 to 1988 but this settled at £1,405 million in 1989. The Netherlands again received the largest amount of British investment in the Community at £1,624 million (29 per cent of the total). Investment in other developed countries was down from £2,370 million in 1988 to £1,353 million in 1989.

Earnings from Outward Investment

Net earnings from outward investment in 1989 were £16,637 million, an increase of 21 per cent on the revised 1988 figure of £13,791 million. However, movements in exchange rates partly accounted for this rise. The exchange rate for sterling against the dollar in 1989 was, on average, 8 per cent lower than in 1988, while the sterling index was 3 per cent lower, which meant a rise in the sterling value of earnings denominated in foreign currency. However, 1989 saw an increase in overseas earnings over and above the exchange rate effect.

Almost half the increase in the net earnings from overseas investment came from oil companies. Their net income rose by 45 per cent to £4,273 million in 1989 (having increased hardly at all in the previous year), reflecting the steady increase in the price of crude oil and the weaker pound against the dollar. Net earnings by British banks were lower because of increased interest payments abroad for loans raised through overseas subsidiaries. The net earnings of insurance companies fell following poor underwriting results by overseas subsidiaries (mostly in the United States) of British insurers.

Net earnings from the United States, at £5,554 million in 1989, accounted for a third of the total and a 12 per cent increase on the 1988 figure of £4,964 million. However, much of this reflected the fall in the sterling exchange rate. Investment earnings from the European Community rose by 31 per cent between 1988 and 1989 to £3,928 million, almost a quarter of net earnings and more than double that in 1986. Net earnings from all Community countries except Italy and Spain increased. Net income from France increased from £514 million in 1988 to £814 million in 1989, reflecting its growing importance for British direct investment.

Inward Investment

Inward investment increased by 71 per cent between 1988 and 1989 to reach £17,544 million (see table). Inward investment in the non-oil sector more than doubled, from £7,098 million to £14,344 million, but that in the oil sector fell from £2,692 million to £2,031 million.

Net acquisition of share and loan capital by overseas companies (£8,262 million) equalled over half of the total inward investment recorded in 1989, reflecting a

continuing high level of cross-border acquisitions and mergers.

Inward Investment by Area

Inward investment from the United States recovered from a low of £427 million in 1988 to £5,698 million in 1989 – 35 per cent of the total. Inward investment from the European Community, at £4,234 million, was slightly lower than in 1988. France was the largest inward investor from the Community in 1989 with £1,251 million.

Outgoings from Inward Investment

The year 1989 saw a smaller increase than 1988 in net outgoings from inward investment. They rose by 7 per cent from £8,282 million to £8,821 million. Within this total, net profits of oil companies increased from £1,965 million in 1988 to £3,202 million in 1989 – the highest figure since 1985, just before the slump in crude oil prices. In the non-oil sector, foreign-owned banks in Britain showed a net loss in 1989, indicating increased provisions for bad debts as well as the limited increase both in branch profits and the net profits of subsidiaries.

United States companies, with a long record of investment in Britain, remained the major beneficiaries of outgoings from inward investment in 1989. They received £5,231 million, representing 59 per cent of the total, which was 15 per cent more than in 1988. Net earnings due to European Community companies increased to £2,076 million, the rise being more than accounted for by increased earnings by Dutch companies, which recorded the highest earnings for the Community.

Industrial Relations

The annual report of the Advisory, Conciliation and Arbitration Service has been published, showing a rise in its workload, despite industrial disputes falling to 630 in 1990, their lowest level since 1935. Other information about trade unions has recently been published, showing a continued decline in membership in 1989.

ACAS ANNUAL REPORT

The 1990 report[1] of the Advisory, Conciliation and Arbitration Service (ACAS) indicated a rise in demand for its collective conciliation and arbitration services, as well as for individual conciliation.

Industrial Relations in 1990

The report says that the work of ACAS was set against a backdrop of further economic, institutional and legislative changes. There were further trade union mergers, and the trend away from national and company-wide bargaining continued. Greater emphasis was being put on flexible working practices and on quality-related matters. There was an increased expectation among employees that company successes in the late 1980s should be reflected in pay. Trade unions were seeking pay settlements to match the rate of inflation; however, where employers were frank about difficult trading circumstances and what was necessary to preserve jobs, lower settlements proved possible. The number of officially recorded disputes fell to its lowest since 1935.

ACAS Activities

ACAS received 1,260 requests for collective conciliation, 8 per cent more than in 1989. Action was completed in 1,140 cases, and contact was maintained in a further 260 disputes without ACAS formally becoming involved. Some 54 per cent of the completed caseload in the year arose from joint requests from management and trade unions. Settlement or progress towards a settlement was achieved in 85 per cent of all cases.

An increasing number of cases for collective conciliation in 1990 arose where changes in working practices were under discussion. Discussions on reductions in the working week also figured prominently. Pay issues – some 50 per cent of the caseload – often focused on conditions attached to payments rather than on the level of the payments themselves. Towards the end of 1990, there was an increase in the number of cases con-

[1] *Advisory, Conciliation and Arbitration Service Annual Report 1990.* Available free from ACAS, 27 Wilton Street, London SW1X 7AZ.

cerned with the management and implementation of redundancies.

Individual Conciliation

ACAS received 52,071 cases for individual conciliation in 1990, up 7 per cent on the 1989 figure. This was the highest number ever. A conciliated settlement was reached in 56 per cent of these cases, while 23 per cent were withdrawn and 21 per cent were dealt with by an industrial tribunal. Cases concerning unfair dismissal continued to form the largest part of the caseload in 1990, some 37,564 such cases being received.

A review of ACAS procedures in dealing with individual conciliation cases had been initiated in 1989, largely as a result of a steeply increasing trend in the number of cases not arising out of a formal complaint to an industrial tribunal. It became evident from the review that many employers were seeking the involvement of ACAS simply to ensure that settlements reached with individuals leaving their service were recorded by ACAS. This could debar those employees from subsequently presenting a claim to an industrial tribunal. In July 1990 ACAS therefore defined more clearly the statutory duties of conciliation officers, making it clear that procedures did not affect the right of individuals to pursue complaints to industrial tribunals.

Advisory Services

The report says that ACAS continued to meet a substantial demand for advisory services in 1990. Some 964 in-depth exercises were conducted in 1990. The Work Research Unit dealt with over 2,100 enquiries. Subjects of greatest interest included stress, quality management, homeworking and Japanese styles of management.

TRADE UNIONS

Membership of trade unions in Britain fell in 1989 for the tenth consecutive year, according to an article in the June 1991 *Employment Gazette*.[1] At the end of 1989 there were 309 unions in Britain with a total of 10·2 million members. This represents a 2·1 per cent fall on 1988 (see table). The number of trade unions had also fallen from the 315 recorded in 1988. There has been a large decrease in the number of unions since 1920, when there was a peak of 1,384. This reflects the continuing process of union mergers and transfers of membership.

Many trade unions are quite small: 45 per cent of unions had fewer than 1,000 members each. There were, however, 23 unions with in excess of 100,000 members each. The largest was the Transport and General Workers' Union, which had 1,271,000 members at the end of 1989. Over 60 per cent of members were in unions of 250,000 members or more.

Further information on trade unions is contained in the annual report of the Certification Officer, published on 16 April.[2] The report shows, among other matters, an increase in trade union mergers. Sixteen mergers were recorded in 1990, compared with ten in 1989. There was also an increase in the number of claims from trade unions for the refunding of costs of secret postal ballots. In 1990 there were claims from 85 unions in respect of 680 ballots, compared with 67 unions claiming for 483 ballots in 1989. Total payments amounted to over £2·6 million.

[1] HMSO, £4·15. ISBN 0 11 728932 9.

[2] *Annual Report of the Certification Officer 1990*. Available free from 27 Wilton Street, London SW1X 7AZ.

Trade Union Membership 1979-89

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Number of unions at end of year	453	438	414	408	394	375	370	335	330	315	309
Total membership at end of year (thousands)	13,289	12,947	12,106	11,553	11,236	10,994	10,821	10,539	10,475	10,376	10,158
Percentage change in membership since previous year	+1·3	−2·6	−6·5	−4·2	−3·1	−3·2	−1·6	−2·6	−0·6	−0·9	−2·1

Employment

The Secretary of State for Employment, Mr Michael Howard, has announced a package of new measures to help unemployed people.

New Measures

The measures were announced in the House of Commons on 19 June (*Hansard*, Vol 193, No 127, cols 293-4). They include:

– a new work experience programme, to be called Employment Action, which will offer the unemployed the chance to keep their skills up to date;

– extra places on Employment Training;

– more places in jobclubs;

– extra help in finding a job for 110,000 first-time unemployed people in a full year; and

– an expansion of Restart courses to help people unemployed for six months or more re-enter the labour market.

Ministerial Statement

Mr Howard said that the majority of those who lost their jobs were back in work after a relatively short time; nearly two-thirds had found a job after six months. The Government was determined to help unemployed people back to work as quickly as possible, and was already providing a wide range of employment and training programmes helping 650,000 people in 1991-92. The new measures would assist a further 190,000 in the current year and 250,000 in 1992-93.

It had become apparent that, for some unemployed people, the most effective help that could be given was work experience to keep their skills up to date. Employment Action, which would be targeted on those unemployed for six months or more, would therefore provide work experience on local projects for 60,000 people in a full year. The Training and Enterprise Councils (TECs) in England and Wales and the Local Enterprise Companies (LECs) in Scotland would be invited to take the lead in setting up the programme.

An extra 15,000 places in Employment Training would be made available in 1991-92. In allocating them, the TECs and LECs would be asked to give priority to those with special training needs, especially those with literacy and numeracy problems. More help would be made available to the long-term unemployed through measures operated by the Employment Service,[1] including 40,000 extra places in jobclubs in 1991-92 and 60,000 places in 1992-93. The Government would ensure that this help was designed to meet the needs of specific groups, including white-collar workers and executives. Mr Howard added that, despite the economic downturn, about half of those who left jobclubs went into work.

Additional help would also be provided to 80,000 newly unemployed people in 1991-92 and 110,000 in the following year. This would be aimed at those experiencing unemployment for the first time, who might need help assessing the opportunities open to them. All those newly unemployed were already guaranteed the chance of an advisory interview; they would now have the opportunity of a further interview after 13 weeks to review progress. The Employment Service would also be asked to provide new courses for recently unemployed people to assess their career options.

The Secretary of State said that the Government was determined to help the unemployed back to work: 'this package is a measure of that determination and of the seriousness with which the Government undertakes its responsibilities to treat unemployed people as individuals with different needs and expectations'.

Employment Action Prospectus

Mr Howard launched the prospectus for the Employment Action programme on 3 July. He said that the programme would assist people in keeping their skills up to date in a way that helped the community, including, for example, environmental projects, renovating run-down inner city areas and improving housing estates. It would also assist those interested in gaining experience in helping

[1] The Employment Service is an executive agency of the Department of Employment; see pp 302-3, 1989, and pp 156-7, 1990.

individuals – for example, in providing luncheon clubs and home care. Participants would receive an allowance equal to their benefit plus £10 and might be eligible for other allowances, such as travelling costs. The programme would receive funding of £180 million from the Department of Employment.

Competition Policy

The role of competition policy – in both its British and European Community contexts – was discussed in a speech by the Secretary of State for Trade and Industry, Mr Peter Lilley, on 12 June. He paid particular attention to the impact of state ownership – whether British or foreign – on the degree of competition.

In his speech the Secretary of State outlined four main planks of competition policy[1] as the basis for trade, deregulation, privatisation and consumer protection:

1 A refusal by the Government to allow so-called 'national champions' to eliminate domestic competition or to subsidise or protect them in the hope that they would conquer world markets. This only made companies become complacent, weak and uncompetitive.

2 Commitment to the most vigorous use of competition powers following a record number of merger cases referred to the Monopolies and Mergers Commission (MMC), with 80 cartels exposed in the past year. Mr Lilley encouraged the vigorous use of existing provisions against restrictive trade practices and promised legislation to increase these powers.

3 No reversal of the burden of proof when examining mergers because the resulting uncertainty would be immensely damaging for the managers and workforces of companies involved in beneficial mergers.

[1] For further details see FCO fact sheet *Competition and Markets in the British Economy*, No 320/90.

4 Reaffirmation of strong support for the 'Tebbit doctrine'.[1]

Mr Lilley said that the recent threat to competition posed by back-door nationalisation (takeover of British companies by state-controlled foreign enterprises) was of particular concern. As the MMC had already concluded, state ownership could arouse legitimate concerns about public interest and competition. He would ensure continued scrutiny of acquisitions by state-controlled foreign companies.

Competition and Private Ownership

The Secretary of State pointed out that free enterprise was now more widely accepted as the 'most powerful engine ever devised for generating material prosperity for the mass of the population'. Since the collapse of socialism in the Eastern bloc 'virtually nobody denies the superiority of the market. Socialism collapsed because it literally could not produce the goods.'

Mr Lilley said that state monopolies could not provide, even for the better-off, goods and services in the quantity and quality which competitive capitalism provided even for its less well-off citizens. Many countries described as market economies displayed a range of policies and performances. However, two vital features had to be cultivated to get the best out of the free enterprise system:

– private ownership, to provide the motive force; and

– competition, to ensure that self interest was harnessed to the common good.

Where the domestic market was not large enough to support several competing suppliers, it was even more important to remove barriers between domestic and foreign markets. Mr Lilley stressed the Government's keenness to see the speedy conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT – see p 282) and the completion of the single market 'without creating a fortress Europe'.

[1] Mr Norman Tebbit was Secretary of State for Trade and Industry between 1983 and 1985. The 'Tebbit doctrine' emphasises competition as the primary criterion for a merger reference.

National Champions

The Secretary of State believed that people paid lip service to the virtues of competition in principle, while fearing that, in practice, competition weakened industry rather than strengthened it. They wanted to create national champions and Euro-champions by:

– encouraging mergers between domestic suppliers;

– allowing them to achieve a dominant position in the domestic market;

– protecting them from external competition; and

– subsidising and aiding them.

This would give enterprises a 'strong home base' from which they could allegedly conquer foreign markets.

Mr Lilley said that there was no evidence that a dominant domestic position helped tackle overseas markets. Instead, he claimed that vigorous competition created internationally competitive firms and industries. The Japanese car industry had nine domestic rivals rather than one national producer, and this had given Japan the competitive edge in the car market. The same applied to Japanese supremacy in cameras and consumer electronics.

Euro-champions

The Secretary of State went on to say that, in theory, a national market might be able to support only one optimally sized company in certain industries. However, even this would be rare, as companies would achieve optimum levels of output to obtain economies of scale by exporting. In almost every industry the European market was large enough to support several competing optimally sized firms. He therefore rejected the idea of allowing Euro-champions, created by mergers and protected by governments, to dominate their sectors of the European market. The single market would allow Europe to enjoy both the benefits of competition and of economies of scale.

Mr Lilley noted that a recent survey for the European Commission had found that most companies needed less than 10 per cent of the Community market to take advantage of maximum economies of scale. Three-quarters of the industries surveyed were likely to achieve maximum economies of scale with less than 5 per cent of the market. 'In many sectors the cost penalty of operating below the minimum economic level was in fact quite modest – certainly not enough to justify permitting monopolies.'

National Purchasing Policies

Major benefits from the single market, the Secretary of State went on, would result only from the dismantling of restrictive national purchasing policies. Left to their own devices, most governments would still give preference in public expenditure to national firms over other Community suppliers – by imposing specific requirements which domestic suppliers could most easily meet.

Community procurement directives could open up to competition a huge market. Effective promotion of domestic competition would therefore benefit both British industry and British consumers.

British Competition Policy

Mr Lilley said that competition policy should be:

– applied with vigour;

– timely, as prevention was better than cure;

– speedy, as unnecessary delay was damaging;

– as certain as possible, as uncertainty was a blight on investment;

– adaptable to meet new challenges; and

– permissive of clear-cut remedies that did not require ongoing regulation.

He then applied these principles in detail to merger and monopoly policy.

Vigorous Application

In 1990 over 28 mergers or proposed mergers had been referred to the MMC – twice as many as in 1989 and more than three times as many as the average over the last decade.

Prevention

Mr Lilley preferred to refer mergers which might lead to an anti-competitive situation than to allow competition to diminish and later rely on a monopoly reference of the whole industry.

Vigorous and timely use of the competition machinery had been effective in keeping markets competitive and deterring anti-competitive trends. The Office of Fair Trading (OFT) received around 1,000 complaints a year about abuse of market power and examined 50 markets in the same period. However, in most cases the OFT found no evidence of market power abuse.

Speed of Investigation

Mr Lilley acknowledged that there had been criticism about the time taken to publish merger and monopoly reports, underlining the need to speed up recently streamlined processes without undermining thoroughness.

Voluntary prenotification by firms of mergers to the OFT guaranteed earlier reference decisions. The MMC could now complete merger inquiries in three months rather than the previous six. He aimed to have merger reports published in three to six weeks, and monopoly reports in six to eight weeks, after receipt.

Certainty

As British competition law allowed considerable scope for judgment, discretion was unavoidable. Mr Lilley wanted to minimise resulting uncertainty over proposed mergers, permitting merger proposals unless they were shown to be against the public interest.

Mr Lilley pledged his loyalty to the Tebbit doctrine. 'Since competition and private ownership are two sides of the same coin, the degree of state ownership should be taken into account in merger policy.'

The Secretary of State rejected the idea that other criteria – such as regional policy and employment – should be taken into account. To do so would multiply uncertainty and confusion. He said that the introduction of the European Community Merger Regulation had removed the greatest potential cause of uncertainty from merger regulation. Previously, companies faced 'double jeopardy'; proposed mergers were regulated by member states, although the European Commission could intervene once mergers had taken place. Under the new arrangements, the Commission would regulate mergers involving combined turnover of 5,000 million ECUs (European Currency Units) or more (unless predominantly within one member state or with insufficient Community turnover), with member states handling the rest.

The Secretary of State believed that the best way to reduce uncertainty was to make greater use of precedent in MMC rulings. The MMC had developed guidance on precedents and was producing a handbook on the assessment of competition, which Mr Lilley welcomed.

Adaptability

The problems which competition policy had to solve were continually changing, with new ones emerging from time to time. Mr Lilley spoke about a number of cases of 'creeping acquisition', where a firm grew by acquiring a series of small competitors, each with only a tiny market share – the result being 'one dominant firm surrounded by remaining minnows'. He indicated the need for firms which made several small acquisitions to be subject to the same scrutiny as the firm that achieved the same market position in one step.

Remedies

Mr Lilley stated his preference for clean structural solutions rather than remedies requiring long-term monitoring by the OFT. Bearing in mind adverse effects likely to be identified by the MMC, he favoured the option of divestment.

Cartels

Noting that cartels and other price-fixing arrangements came under restrictive trade practices legislation, Mr Lilley said that, in the past year, the OFT had exposed over 80. With court action pending in about 70 other cases, the attendant publicity had encouraged people to reveal information on other secret cartels. Mr Lilley said that the 1989 White Paper on Restrictive Trade Practices (see pp 352-3, 1989) suggested that current investigatory powers and penalties needed strengthening. Promising further legislation, he noted that penalties arose only if companies continued to operate an agreement in contempt of court, and that fines had appeared low in relation to the likely economic effects of the cartel.

He stressed the need for the courts to be given evidence about the impact of cartels on the costs to industry and the consumer. While redress could be obtained by suing for damages, Mr Lilley acknowledged legal funding difficulties endured by small businesses, recommending that public sector purchasers should take a lead in court action.

State-controlled Acquisitions

Mr Lilley said that all 44 of the companies which the Government had privatised had improved their output, turnover, profits, investment and labour relations. Few would argue that they should be renationalised or that companies that had always been in the private sector should be nationalised. He added that the process of 'nationalisation by the back door' (by foreign companies) would no longer go unnoticed.

He acknowledged that the MMC had previously been asked to look at acquisitions by state-controlled companies (for example, the purchase of shares in BP by the Kuwaiti Investment Office, and attempts by Iraqi-controlled companies to buy up European companies before the invasion of Kuwait). The motivation for, and effect of, acquisitions by state-controlled companies warranted special attention. There was widespread concern in British business about the commercial problems arising from state takeovers of this type.

Mr Lilley said that the 'dead hand of the state' stifled the pace of development, undermined vitality and diminished drive. Public monopolies had 'a tendency to be sluggish, inefficient and unresponsive to customer needs'.

Therefore, the Government's concern was not about foreign control, but state control, be it British, European Community or from outside the Community. Britain welcomed foreign investment and had attracted more than any other Community country.

State Aids

Mr Lilley said that, ideally, countries would desist from giving their industries subsidies, tax privileges and cheap loans and would recognise that these cancelled out any competitive benefit, while requiring higher taxes – which reduced incentives. However, in practice, countries did grant state aids, which generated demands for matching support in other countries.

Restating strong support for the Community decision to restrict state aids in preparation for the single market, he welcomed Commission proposals on making aids to public enterprises more transparent, and thus more open to investigation by the Commission, as were such aids to the private sector. He concluded: 'It is essential in an open market that government ownership provides a company with no competitive advantages over its private sector rivals and, so far as this is possible, clearly it should be seen to be the case.'

Scottish Electricity Companies Flotation

Nearly 1,200 million shares in the two Scottish non-nuclear electricity companies went on sale in mid-June. Some 2·16 million applications were received from the public and the public offers were over three times subscribed before clawback.

In a statement on 17 June, the Secretary of State for Scotland, Mr Ian Lang, said that almost a tenth of Scotland's population would now own shares in the companies. 'Around 320,000 ScottishPower customers and 137,000 customers of Hydro-Electric applied for shares. These ... represent about a quarter of all pre-registered applicants from among the general public.'

Background

ScottishPower and Hydro-Electric are vertically integrated electricity companies. They came into being on 31 March 1990. Each carries on the activities of:

1 generation – production of electricity at generating stations;

2 transmission – bulk transfer of electricity at high voltages across a transmission system;

3 distribution – transfer of electricity from transmission system and delivery, across distribution system, to end users; and

4 supply – purchase of electricity and sale to customers.

Each company has access to coal-fired, conventional hydro, dual oil- and gas-fired, and pumped storage generating capacity through its own power stations. Contractual arrangements between the two, and with Scottish Nuclear Ltd, a government-owned company which operates the nuclear stations at Hunterston (Strathclyde) and Torness (Lothian), give both access to a greater mix of generating sources than is provided by their own stations. ScottishPower's authorised supply area covers 23,000 sq km and comprises southern Scotland, most of central Scotland and a small part of Northumberland. Hydro-Electric's authorised supply area is the largest served by any public electricity supplier in Britain. It covers some 54,000 sq km in northern Scotland, about one-quarter of the land mass of Great Britain. The boundary separating the areas runs from Loch Long on the Firth of Clyde to Newburgh on the Firth of Tay.

In 1989-90, ScottishPower's turnover was £1,136·6 million and operating profit £204·3 million. Those of Hydro-Electric were £447·7 million and £106 million respectively.

The Flotation

On 30 May, Barclays de Zoete Wedd Limited and the British Linen Bank Limited (the merchant bankers handling the flotation) offered for sale on behalf of the Government approximately 1,198·2 million ordinary shares in the companies (814·8 million in ScottishPower and 383·4 million in Hydro-Electric), at a price of £2·40 a share. Private buyers who had registered with the Scottish Electricity Share Information Office by 23 May were eligible for special incentives (see below). Shares were available to the general public in package units comprising shares in each company in the proportion of 32 in Hydro-Electric to 68 in ScottishPower. The minimum investment for package units was £720 – 96 shares in Hydro-Electric and 204 in ScottishPower – of which £300 was payable on application. The minimum investment for eligible customers applying for shares in their supplying company only was £240, of which £100 was payable on application. The offer price was payable by instalment: £1 on application, 70p in May 1992 and 70p in April 1993.

Public Applications

Registered individual customers could apply for:

1 a customer share bonus in his or her supplying company – one bonus share for every ten shares in the offers for sale and held continuously until 30 June 1994. Subject to a maximum bonus of 300 shares;

2 electricity vouchers – issued over a period of 30 months to a value of £18 for every 100 shares in the customer's supplying company held continuously up to certain qualifying dates, subject to a maximum value of £270; or

3 a non-customer share bonus in each company – one bonus share for every 20 shares (up to a maximum of 150 free shares) in each company held continuously until 30 June 1994.

Some 4 per cent of the shares in each company were reserved to meet bonus entitlements and applications from employees.

Allocation of Shares

Details of the allocation of shares were announced on 17 June. It had been intended to make 35·5 per cent of the total share issue available to the general public, including employees and pensioners. In view of the substantial demand, however, this allocation was increased to 58 per cent. Some 2·2 million applications were received from the general public for 1,363·2 million shares.

Almost everyone who applied with customer preference received an allocation and 97 per cent of customers and employees received all the shares that they asked for. Some 88 per cent of non-customers received an allocation. Customers, employees and pensioners of ScottishPower were allocated 29 per cent of the shares issued and those of Hydro-Electric 24 per cent. Customers of both companies had their applications met in full if they applied for up to 2,000 shares. Only applicants for 35,000 shares or more received nothing. Package applicants did not receive the allocations in the same proportion as that in which applications were invited. Non-customers received up to 350

shares in the ratio of approximately two shares in ScottishPower to one in Hydro-Electric.

Other Applications

Of the total offer, 47·2 per cent of the shares were initially reserved for British institutional investors. Because the public applied for over twice the number of shares in the public offer, a proportion originally destined for British and overseas institutions was clawed back for further allocation to the public. The allotment for British institutions was reduced to 19·9 per cent. (Scottish financial institutions received between 20 and 25 per cent of this allotment.) The final allocations overseas were as follows: 9·9 per cent to Japan, 9·2 per cent to the rest of Europe, 2·2 per cent to the United States, and 0·8 per cent to Canada.

Certain British investing institutions and the underwriters of the overseas offers were able to bid for 16 per cent of the available shares through an international back-end tender. These shares had initially been allocated to overseas and British institutional investors who were involved in the underwriting of the offers. The clawback of these shares for the tender raised £42 million.

Government Shareholding

The Secretary of State for Scotland holds a special share in each company which gives him power to prevent a takeover. His consent is required to the alteration or removal of certain arrangements, for example limitations in the articles of association which prevent any person from having an interest of 15 per cent or more in the voting share capital of a company.

Shorter Notes

EUREKA

The Eureka initiative, launched in 1985, continues to generate collaborative research projects in advanced technology among European countries (see p 221, 1990). At the ninth Eureka Ministerial Conference, held in The Hague on 19 June, 121 new projects were announced, bringing the total number to 493. Britain is participating in 30 of the new projects, and acting as the lead country in 15 of them. A total of 61 British organisations are involved in the new projects, including 22 small to medium-sized companies and 13 universities. The projects span a wide range of areas, including information technology, communications, automation, new materials, medicine, transport and the environment.

Britain's increasing participation in the scheme was welcomed by Lord Reay, Parliamentary Under-Secretary of State at the Department of Trade and Industry with responsibility for industry and technology. The research collaboration promoted by Eureka encouraged the development of long-term commercial relationships, which was especially important for small companies, he said. Lord Reay also welcomed the growing number of universities working with industry under the scheme, facilitating the transfer of technologies and the spread of technical skills. He noted the success of the Euroenviron scheme (see pp 79-80, 1990), which had generated a substantial number of project proposals in its first year. Britain is taking the lead in three new Euroenviron projects involving collaborative research into the recycling of rubber and plastics, the recycling of plastic packaging and the detoxification of contaminated soil.

On 19 June the Secretary of State for Trade and Industry, Mr Peter Lilley, announced that a British government grant of almost £8 million had been awarded to British Biotechnology, a small pharmaceutical company. The grant, to be made over five years under the Eureka initiative, will be used to develop technology which could produce vaccines against AIDS and other viruses. This involves the production of genetically engineered particles which resemble viruses and can be safely injected as a vaccine, with the aim of encouraging the body's immune system to combat viral diseases. The research will be undertaken in collaboration with an Italian pharmaceutical company and its Spanish affiliate.

Sources: Department of Trade and Industry news releases, 19.6.91.

EXPORT CREDITS

On 1 July the Secretary of State for Trade and Industry, Mr Peter Lilley, made a statement in the House of Commons about the proposed sale to the private sector of the Insurance Services Group, part of ECGD (Export Credits Guarantee Department). The Group provides insurance for exporters of capital goods sold on short-term credit.

Mr Lilley said that the sale was subject to the successful completion of the Exports and Investment Guarantees Bill (see pp 68-70). He went on to say that an invitation to tender had been issued in early March. Responses had been considered with particular attention to the commitment of bidders to, and understanding of, the business; the 'financial robustness' of proposals; bidders' future business plans; and the likely acceptability of bidders to customers and staff, as well as to price.

Mr Lilley announced that NCM had been selected as the preferred purchaser, subject to contract. He added that the proposed transfer would provide British exporters with a more comprehensive and efficient service than was possible within a public sector environment.

With a period of negotiations between the Government and NCM now under way, the Secretary of State reaffirmed government support for the business through proposed reinsurance arrangements with the new company.

Source: *Hansard*, Vol 194, No 135, written answers, cols 20-1.

TRADE POLICY

At a ministerial meeting of the Organisation for Economic Co-operation and Development (OECD) held on 4 June in Paris, the Secretary of State for Trade and Industry, Mr Peter Lilley, put forward a seven-point plan to make progress towards the successful completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). He called for:

– conclusion of the Uruguay Round of GATT before the end of 1991;

– an end to demands made via the press by individual states for others to make concessions;

– renewed momentum for concrete negotiations;

– progress on a broad front to act as a stimulus for concessions on agriculture, the most problematic area;

– all agreements and tentative concessions made in Brussels in December 1990 (see pp 22-3), and since, to be upheld;

– an 'acceptable outcome', rather than trying for a perfect agreement which was not possible; and

– consideration of the interests of developing countries, which stood to lose most if the GATT talks failed.

A communiqué issued after the Paris meeting reaffirmed the high priority of agreement on GATT. A successful conclusion would further strengthen the open multilateral trading system and was crucial to continued growth of world trade and the world economy. It would also greatly enhance the process of structural reform. Ministers agreed that 'substantial progress' in all areas would have to be achieved by the end of the summer. They recognised that, to achieve this goal, political decisions to overcome major existing differences were needed and the pace of negotiations would have to be intensified.

Sources: Department of Trade and Industry news release, 4.6.91; OECD communiqué, 5.6.91.

Environmental, Social and Cultural Affairs

Environmental Protection

The Prime Minister, Mr John Major, has listed the challenges posed by the threat of global warming. Further action will be taken by Britain to improve the environment, including a proposed merger of the National Rivers Authority and Her Majesty's Inspectorate of Pollution into one environment agency.

Prime Minister's Speech

Mr Major, speaking on 8 July at an exhibition in London on the environment, covered international problems such as global warming and deforestation before discussing Britain's response to such challenges.

Global Warming

The environment, he said, was an international problem: 'We cannot wrap the environment up into neat national parcels.' No problem showed this more than global warming, which posed a real threat of spreading deserts, changed climate patterns and flooding of low-lying areas.

More research was necessary, the Prime Minister continued, 'but the need for research could not excuse inaction. Britain had committed itself to act by undertaking to reduce carbon dioxide emissions to 1990 levels by 2005, provided other countries took similar action. The environment White Paper *This Common Inheritance*, published in autumn 1990 (see pp 358-61, 1990), had set out the first set of measures to limit carbon dioxide emissions in Britain. A further report would be published in autumn 1991 showing how these were being put into practice.

Action by Britain alone would not begin to tackle the problem, however, since it produced only 3 per cent of the world's carbon dioxide. The Government was therefore working with its European Community partners to produce a European strategy. Yet the Community accounted for only 13 per cent of global carbon dioxide emissions. Other countries, such as the United States, the Soviet Union, the People's Republic of China and India, should also take steps.

Sustainable Development

Mr Major said that the destruction of forests in the tropics represented a loss to Britain as well. Mankind was 'destroying the world's lungs and we are burning the knowledge bank ... we may be destroying plants that could help us adapt to environmental change.' It was therefore necessary to help developing countries to manage their forests. Britain had, in just over two years, doubled the number of such forestry projects it was financing. No longer should the present generation consume without reckoning the environmental costs as it did so.

The message of sustainable development was therefore a simple one: 'We must ... learn to live within our environmental means.' There would be a global meeting on the environment in June 1992 – the United Nations Conference on Environment and Development – which he hoped to attend himself. Britain had three main aims for the conference:

1 international agreements on tackling climate change, protecting tropical forests and maintaining biodiversity;

2 an agreement to strengthen the international institutions responsible for the environment, especially the United Nations Environment Programme; and

3 more effective help for developing countries to meet environmental challenges.

Domestic Environmental Policy

The Prime Minister said that the publication of *This Common Inheritance* provided emphatic leadership on the environment, setting out 350 action points. The Government intended to publish a report to mark the anniversary of the White Paper, taking stock and indicating further ways forward.

'I intend that this should be the first of a regular series of reports accounting for the Government's stewardship of the environment ... the White Paper is a start, not a full stop.'

The system of integrated pollution control (see p 81, 1990) had, Mr Major said, given 'a keen cutting edge to our environmental efforts in this country'. There was, however, scope to co-ordinate even better the arrangements for the control of pollution. The Government therefore intended to establish an Environment Agency by the merger of Her Majesty's Inspectorate of Pollution (HMIP) and the National Rivers Authority (NRA). The new agency would:

– have responsibility for monitoring the state of air and water;

– make proposals to the Government on standards;

– regulate emissions and discharges to achieve government standards; and possibly also

– be responsible for regulating the handling and disposal of waste, a duty currently under the combined supervision of HMIP and the local authority.

Mr Major concluded: 'It is right, I believe, that the integrity and indivisibility of the environment should now be reflected in a unified agency and I am confident that this will be a significant step forward.'

Further proposals would be brought forward in due course for Scotland, where the current institutional framework was different.

Ministerial Announcement

Further details of the proposed Environment Agency were given by the Secretary of State for the Environment, Mr Michael Heseltine, in the House of Commons on 8 July (*Hansard*, Vol 194, No 140, written answers, cols 279-80).

Mr Heseltine said that the establishment of a single body would produce more effective pollution control through greater integration of the staff involved. The agency would be a non-departmental public body, whose board would be appointed by the Government. Its establishment would not affect the current division of work between the pollution control agencies and the Health and Safety Executive. Legislation would be needed to set up the new body, and he was asking HMIP and the NRA to work closely with the Government on developing detailed proposals. A consultation document would be issued later in 1991; meanwhile, the present agencies would continue their work with the full backing of the Government.

Shorter Notes

COUNTRYSIDE PROTECTION

Countryside Stewardship, a countryside protection scheme costing £13 million over three years, was announced by the Secretary of State for the Environment, Mr Michael Heseltine, on 25 June.

Under this pilot scheme, developed by the Countryside Commission, the Department of the Environment will fund payments to farmers and landowners in England to protect landscapes and habitats and to improve opportunities for the public to enjoy them. Initially, it will target chalk and limestone grasslands, heathlands, waterside and coastal lands and uplands. Annual payments will be up to £300 a hectare.

Mr Heseltine said that the scheme demonstrated the progress that the Government was making with the initiatives announced in the environment White Paper (see pp 358-61, 1990). It was a product of the Government's concern to integrate environmental con-

siderations into agriculture policy. 'Countryside Stewardship will provide us with valuable experience for the future direction of policies for the environment and agriculture.'

Source: Department of the Environment news release, 25.6.91.

CONTROL OF DANGEROUS DOGS

The Dangerous Dogs Bill, published on 5 June, was passed by the House of Commons on 10 June and received its second reading in the House of Lords on 25 June.

The Bill reflects the Government's concern over the threat posed by dangerous dogs to the public and its determination to phase out dogs bred for fighting, such as the pit bull terrier and the Japanese tosa. The Department of Trade and Industry has banned the import of such dogs.

Under the Bill, the breeding, sale, exchange or abandonment of pit bull terriers and Japanese tosas would become a criminal offence. Such dogs would also have to be muzzled and leashed in a public place. Penalties for offences would include up to six months in prison and/or a fine of up to £5,000.

At the end of November 1991 it would become unlawful to own a pit bull terrier or Japanese tosa, which would thereafter become prohibited breeds. In the 'grace period' up to that date, the Government would make an incentive payment of about £50 to owners who voluntarily had their 'prohibited' dogs put down. This payment would represent both compensation and a contribution to the cost of a dog's destruction.

Alternatively, certain 'prohibited' dogs could be exempted from the ban on ownership if they were registered with the police, neutered by a veterinary surgeon and if their owners showed proof of third party insurance. Owners would then be issued with a permit. Exempted pit bull terriers and tosas would have to be muzzled and leashed in public places. The Home Secretary would have the power to make other fighting dogs subject to the same criminal offences.

The Bill would give the Home Secretary a reserve power to impose restrictions on other types of dog which were considered to present a danger to the public. It would also create a new offence of permitting a dog of any breed to be dangerously out of control in a public place. An aggravated offence would occur if, while out of control, a dog caused injury to any person. Such an offence would incur a penalty of up to two years' imprisonment and/or an unlimited fine for the owner.

Police and local government authority officers would have powers to seize any dog dangerously out of control in a public place.

Under previous legislation courts could only order that a dog be kept under proper control. This power would be extended to allow courts to specify the form of control, such as muzzling or exclusion from certain places.

A court would also be obliged to order the destruction of a pit bull terrier or tosa if the owner or person in charge was convicted of an offence under the Bill.

Sources: *Hansard*, Vol 192, No 121, cols 605-99; Home Office news release, 5.6.91.

DRUG TRAFFICKING

Powers enabling Britain to ratify the 1988 United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (see p 15, 1989, and pp 225-6) came into force on 1 July. The Convention provides a comprehensive framework for international co-operation against all aspects of drug trafficking.

On 28 June, Mr John Patten, Minister of State at the Home Office, announced Britain's ratification and explained that, in order to comply with the provisions of the UN Convention, Britain had introduced new powers to:

– co-operate with other countries in the investigation and prosecution of criminal offences, providing mutual assistance in criminal proceedings;

– strengthen British provisions against money laundering and for confiscation of the proceeds of drug trafficking;

– regulate the international trade in chemicals which are diverted to illicit drug production;

– stop and search ships suspected of being used for drug trafficking in international waters; and

– make drug trafficking offences fully extraditable.

These powers, together with others to seize and detain imported or exported cash believed to result from drug trafficking, are contained in the Criminal Justice (International Co-operation) Act 1990 and subordinate legislation (see pp 112 and 129, 1990).

Mr Patten said that the UN Convention would formally enter into force for Britain on 26 September 1991, although many of its provisions were applicable from 1 July. He added: 'The new powers conferred under the 1990 Act and the Convention itself will enable us to step up still further our fight against drug trafficking, both in the UK and overseas, and to co-operate still more closely with other countries in that never-ending struggle.'

Powers under the 1990 Act relating to the control of chemical substances diverted to illicit drug production have been supplemented by European Community legislation so far as British trade with countries outside the Community is concerned. This came into force on 1 July.

Source: Home Office news release, 28.6.91.

CHILD SUPPORT BILL

The Government's Child Support Bill, which covers England, Wales and Scotland, received its second reading in the House of Commons on 4 June, following the defeat of an Opposition amendment by 221 votes to 165. The Bill is designed to implement the main proposals of the White Paper *Children Come First,* published in October 1990 (see pp 393-4, 1990). It is intended that the provisions will be extended to Northern Ireland.

Moving the second reading of the Bill, the Secretary of State for Social Security, Mr Tony Newton, said that the Bill aimed to benefit children and those who cared for them. Parents had a responsibility to their children, and payment of child maintenance was one way of meeting that responsibility. The principles behind the proposals had 'had widespread support from many quarters – including, I believe, all parts of the House'. The Bill provided for two of the main elements in the Government's child maintenance strategy:

– the establishment of a formula for the assessment of child maintenance by administrative means; and

– the setting up of a Child Support Agency to assess, collect and enforce maintenance payments.

Benefit proposals, to be implemented separately, would be designed to make it easier to combine working with the responsibilities of looking after children.

The official Opposition spokesman, Mr Michael Meacher, expressed strong support for the principle of the Bill, but said that 'its detail and application are seriously flawed'. In particular, he opposed the proposed deduction in the adult personal allowance payable to caring parents who refused to name absent parents. He also had reservations about the proposed maintenance formula and methods of enforcement.

Source: *Hansard,* Vol 192, No 116, cols 178-249.

NEW TECHNOLOGY TRAINING PROJECTS: COMETT II

Some 60 British-led new technology training projects, which bring together higher education institutions and industry throughout Europe, have been allocated more than £2·5 million under a European agreement. They are to be financed from the 1991 round of COMETT II, for which a total of £14·5 million is available. COMETT – the Community Action Programme for Education and Training for Technology – was established in 1987 by the European Community with a budget of £40 million over three years. It was extended for a further five years, from 1990 to 1994, with funding totalling £140 million. Under COMETT II, the programme

has been opened to countries belonging to the European Free Trade Association, which are contributing an additional £20 million to the programme budget.

Applications for funds in 1991 were restricted to the University Enterprise Training Partnerships set up previously with financing from COMETT. The Partnerships are consortia of higher education institutions and businesses within geographic regions or technology sectors in Europe. They aim to identify and address the technological training needs of the workforce.

The £2·5 million will be used to support various projects, including:

– 23 student placement projects, under which 841 students will receive placements in industry in other member states for between three and 12 months; and

– three projects to place six university staff or industrial personnel in industry or higher education in another member state for periods of up to 12 months.

Source: Department of Education and Science news release, 3.6.91.

Documentation

Government and Administration

The Structure of Local Government in Scotland. A Consultation Paper (see p 249). Available free from the Scottish Office, New St Andrew's House, Edinburgh EH1 3TD.

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Further Information Points

Ministry of Agriculture, Fisheries and Food, 3 Whitehall Place, London SW1A 2HH.

Central Office of Information, Hercules Road, London SE1 7DU.

Central Statistical Office, Government Offices, Great George Street, London SW1P 3AQ.

HM Customs and Excise, New King's Beam House, 22 Upper Ground, London SE1 9PJ.

Ministry of Defence, Main Building, Whitehall, London SW1A 2HB.

Department of Education and Science, Elizabeth House, York Road, London SE1 7PH.

Department of Employment, Caxton House, Tothill Street, London SW1H 9NF.

Department of Energy, 1 Palace Street, London SW1E 5HE.

Department of the Environment, 2 Marsham Street, London SW1P 3EB.

Foreign & Commonwealth Office, King Charles Street, London SW1A 2AH.

Department of Health, Richmond House, 79 Whitehall, London SW1A 2NS.

Home Office, Queen Anne's Gate, London SW1H 9AT.

Board of Inland Revenue, Somerset House, London WC2R 1LB.

Office of the Minister for the Civil Service, Government Offices, Horse Guards Road, London SW1 3AL.

Northern Ireland Information Service, Stormont Castle, Belfast BT4 3ST.

Overseas Development Administration, Eland House, Stag Place, London SW1E 5DH.

Scottish Information Office, New St Andrew's House, Edinburgh EH1 3TD.

Department of Social Security, Richmond House, 79 Whitehall, London SW1A 2NS.

Department of Trade and Industry, 1 Victoria Street, London SW1H 0ET.

Department of Transport, 2 Marsham Street, London SW1P 3EB.

HM Treasury, Parliament Street, London SW1P 3AG.

Welsh Office, Cathays Park, Cardiff CF1 3NQ.

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